TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS

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PART 2

UNITED STATES POSTAL SERVICE

H181-62

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

28-466 O WASHINGTON : 1990

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR 1991

THURSDAY, FEBRUARY 22, 1990.

UNITED STATES POSTAL SERVICE

WITNESSES

ANTHONY M. FRANK, POSTMASTER GENERAL

COMER S. COPPIE, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE GROUP

LOUIS A. COX, GENERAL COUNSEL

ALLEN R. KANE, ASSISTANT POSTMASTER GENERAL DELIVERY, DISTRIBUTION AND TRANSPORTATION DEPARTMENT

Mr. ROYBAL. The Committee is in session this afternoon to hear from the Postal Service and asks the Postmaster General to proceed in any manner he may desire.

Mr. FRANK. Thank you very much, Mr. Chairman, Mr. Skeen. It is a pleasure to be here this afternoon. With me today are Louis Cox, our General Counsel, Comer Coppie, our Chief Financial Officer, and Mr. Allen Kane, who's our Assistant Postmaster General for Delivery, Distribution and Transportation.

I have a brief statement, Mr. Chairman, which I am supposed to read, if you do not object.

[The information follows:]

STATEMENT OF POSTMASTER GENERAL ANTHONY M. FRANK
BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE ON
TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT
CONCERNING THE FY 1991 BUDGET REQUEST

February 22, 1990

Mr. Chairman, it is a pleasure for me to be here today to discuss the Postal Service's appropriations request for Fiscal Year 1991.

The President's budget recommends that the Postal Service receive a net appropriation of $410,734,000 for Fiscal Year 1991. This represents a reduction of $79,116,000 from the amount received for Fiscal Year 1990.

REVENUE FORGONE APPROPRIATION

Of the amount recommended by the President, $372,592,000 would be for revenue forgone on reduced postage rates. The budget indicates that the Administration will submit a legislative proposal to narrow eligibility of certain types of mail or mailers for subsidized rates. While the full details of the proposal remain to be transmitted, we understand that the restrictions would focus on: (1) nonprofit second-class mail containing more than ten percent advertising; (2) nonprofit third-class mail containing political advocacy, or advertising products or services, or mailings of educational organizations that are not schools; and (3) library-rate fourth-class mail from publishers.

Without a change in the law, the net appropriation needed to maintain all free and reduced-rate mail at the currently

authorized level in Fiscal Year 1991 is $484,592,000. If Congress decides not to provide the full appropriation, the law authorizes the Governors of the Postal Service to protect other mailers against loss by adjusting the subsidized rates as necessary to make up the shortfall.

RECONCILIATION ADJUSTMENT

By law each year's appropriation request must include an amount to reconcile the appropriations for prior years based on final audited mail volumes. Based on preliminary estimates, the Fiscal Year 1988 appropriation provided $535,545,000 for free and reduced-rate mail. Audited mail volumes now available for that year indicate that $507,347,000 is the actual figure required to fully reimburse the Postal Service for the services provided. The excess amount -- $28,198,000 -- is proposed for return to the Treasury as an offset within the budget request for Fiscal Year 1991.

TRANSITIONAL APPROPRIATION

The budget submission also proposes $38,142,000 for Fiscal Year 1991 for transfer to the Department of Labor. This request covers workers' compensation payments for former Post Office Department employees disabled by work injuries prior to postal reorganization. While we pay the workers' compensation costs for our own employees, the law places responsibility for these remaining Post Office Department injuries on the United States, not the Postal Service.

PUBLIC SERVICE APPROPRIATION

Although an annual public service appropriation to the Postal Service is authorized by law, none has been made since Fiscal Year 1982 and the Postal Service is again not requesting one this year.

Mr. Chairman, I would be pleased to respond to any questions.

APPROPRIATION REQUEST

Mr. FRANK. The President's budget recommends that the Postal Service receive a net appropriation of $410,734,000 dollars for Fiscal Year 1991. This recommendation represents a reduction of $79,116,000 from the amount received for Fiscal Year 1990. Of the amount recommended by the President, $372,592,000 would be for revenue forgone on reduced postage rates. The budget indicates that the administration will submit a legislative proposal to narrow eligibility of certain types of mail or mailers for subsidized rates. While the full details of the proposal remain to be transmitted, we understand that the restrictions would focus on, one, non-profit second-class mail containing more than 10 percent advertising. Two, non-profit third-class mail containing political advocacy, through advertising products or services, or mailings of educational organizations that are non-schools; and three, library rate, fourth-class mail from publishers.

Without a change in the law, the net appropriation needed to maintain all free and reduced rate mail at the currently authorized level for Fiscal Year 1991 is $484,592,000. If the Congress decides not to provide the full appropriation, the law authorizes the postal governors to protect other mailers against loss by adjusting the subsidized rates as necessary to make up the shortfall.

RECONCILIATION ADJUSTMENT

By law, each year's appropriations request must include an amount to reconcile the appropriations for prior years based on final audited mail volumes. Based on preliminary estimates, the Fiscal Year 1988 appropriation provided $535,545,000 for free and reduced-rate mail. Audited mail volumes now available for that year indicate that $507,347,000 is the actual figure required to fully reimburse the Postal Service for the services provided. The excess amount—$28,198,000—is proposed for return to the Treasury as an offset within the budget request for Fiscal Year 1991.

TRANSITIONAL APPROPRIATION

Finally, the budget submission also proposes $38,142,000 for Fiscal Year 1991 for transfer to the Department of Labor. This request covers workers' compensation payments for former Post Office Department employees disabled by work injuries prior to postal reorganization. While we pay the workers' compensation costs for our own employees, the law places responsibility for these remaining Post Office Department injuries on the United States, not the Postal Service.

PUBLIC SERVICE APPROPRIATION

There is a category, Mr. Chairman, called the Public Service Appropriation, which is authorized by law, but none has been made or requested since Fiscal Year 1982 and the Postal Service is, again, not requesting one this year.

That concludes my statement. All of us will be pleased to respond to any questions that you may have.

ADVERTISING IN NON-PROFIT REPORT

Mr. ROYBAL. First of all, Mr. Frank, I would like to thank you and your colleagues present this afternoon. I think we have to make some changes and we are glad that you were able to make it. And make your presentation in the afternoon instead of the morning as we usually have done in the past.

We would also like to ask you to—if you have no objections—submitting the report on advertising and non-profit mailings and making it part of the record.

Mr. FRANK. Certainly. Glad to do it.

[The information follows:]

THE POSTMASTER GENERAL
Washington, D C 20260-0010

February 1, 1990

Dear Mr. Chairman:

The following report relating to use of nonprofit third-class mail rates is submitted in accordance with Conference Report 101-276 accompanying the 1990 Treasury, Postal Service, General Government Appropriations legislation (Public Law 101-136).

In the Conference Report on the Postal Service Appropriations Act, 1990, the Conferees expressed specific concern about "the abuse of the subsidized non-profit third-class rates by those who use these reduced rates to advertise articles, products, financial, insurance, travel, and other services which have no direct relation to the mission of the non-profit organization and which clearly advertise for commercial purposes." As a result of this concern, the Postal Service was asked to prepare a report for the Appropriations Committees which included an accounting of the amount of appropriated funds used to support commercial advertising purposes, and to provide the Committees with specific recommendations to eliminate this abusive practice.

The Postal Service does not, in the ordinary course of its operations, maintain statistics concerning the subject matter of nonprofit mailings. Accordingly, in order to address the Committees' request for specific dollar amounts, we referred to the Report To The Congress - Preferred Rate Study, June 18, 1986, by the Postal Rate Commission (PRC). In that report, the PRC defined two categories of advertising mailed by nonprofit organizations - that which should, and that which should not, be considered mailable at the preferred rates. These categories were designated Type A for eligible advertising, and Type B for ineligible advertising. As defined by the PRC, Type B advertisements include any advertisements for travel, insurance, and financial services, and other advertisements for services and products not produced by or directly related to the functions of the nonprofit organization. The PRC found that 13 percent of all

third-class preferred rate mail contained at least some advertising which fell into Type B. Factoring out those pieces which combined ads with non-commercial messages (for example, a display advertisement on a page of an organization's newsletter or publication), approximately six percent of third-class nonprofit mailings were found to consist predominantly of ineligible Type B advertising. See Exhibits I and II.

Using the six percent figure for the volume of ineligible advertising, and the total special third-class postage for Fiscal Year 1989, we estimate that the amount of the Revenue Forgone Appropriation devoted to the support of this advertising was $21,310,000. Exhibit III details the postage and appropriation amounts for Fiscal Years 1989, 1990, and 1991.

Exhibit IV shows that the total volume of nonprofit pieces increased 5.4 percent from FY 1988 to FY 1989, while the total pound weight increased 9.0 percent. Generally, weight increases in third-class mail that exceed volume growth indicate that additional items, such as brochures and the like, are being included in the pieces of mail. This holds true for both regular and special rate third-class mail. It is reasonable to suspect that some portion of this weight increase results from the inclusion of ineligible Type B advertising matter in otherwise acceptable third-class nonprofit mailpieces (for example, a group insurance solicitation included with a nonprofit organization's membership application). Therefore, the total exclusion of all Type B advertising might not result in a corresponding reduction in pieces and postage; the revenue forgone appropriation to the Postal Service, however, would be reduced if regular bulk rate postage were chargeable on pieces which contained non-permissible advertising enclosures.

Current statutes do not restrict the nature of advertising which may be mailed at the nonprofit rates, and the Postal Service accordingly does not attempt to determine whether the sale of products or services advertised by nonprofit organizations relates to the nonprofit purpose of the organization. The Postal Service, however, does attempt to enforce its regulations which prohibit mailings of material other than that of the authorized nonprofit organization, including "cooperative mailings" which are intended to benefit an individual or an organization not

eligible for the special bulk rates. Such cooperative mailings are often the product of a joint business venture between an authorized nonprofit organization and a commercial business, and typically are designed to sell products or services such as travel, insurance, and financial or credit card services.

Under current enforcement procedures, the Postal Service has no practical alternative but to accept mailings at the nonprofit rate which are tendered by an authorized nonprofit organization and appear on their face to be the mail of that organization. The vast majority of improper cooperative mailings sent at the special bulk third-class rates are thus able to gain entry into the mails because examination of the mailpiece at the time of acceptance is inadequate to disclose the business arrangements between nonprofit and for-profit organizations which make the mailing cooperative. Indeed, it would be unrealistic to expect clerks stationed at the mail acceptance platforms of post offices to interrupt mail processing functions in order to conduct an in-depth inquiry into the relationship between a nonprofit organization and the provider of such services as "affinity" credit-cards, insurance, and travel programs each time such a mailing arrives at the loading dock. As a result, the Postal Service is left to police the cooperative mailing restrictions after the mailing enters the postal system.

A recent Postal Inspection Service audit report has suggested the extent to which for-profit providers of services such as credit cards, travel programs, and group insurance plans have been able to exploit the special bulk third-class rates for commercial purposes. Applying the recognized elements of a joint business venture, such as shared management control, profits, and risk, the Inspectors reviewed evidence such as contracts, trust agreements, and other papers to determine who really was intended to benefit from the marketing of various commercial services at the special bulk third-class rates. The investigation, the results of which consolidate a number of individual cooperative mailing investigations during FY 1989, examined the mailing of 35 million special-rate pieces advertising insurance plans, credit cards, and travel programs, sent by 150 different nonprofit mailers under arrangements with a much smaller number of commercial enterprises. This investigation, of relatively limited scope, compared to the possible dimensions of this problem, has resulted to date in the assessment of revenue

deficiencies totaling approximately 2 million dollars. The Postal Service believes that this investigation, which covered only a small percentage of mailings which might be considered questionable under current regulations, demonstrates that it is crucial to take action in this area.

Recognizing it will not resolve the basic problems which attend after-the-fact enforcement of the rules in this area, the Postal Service plans to publish a proposed rule that will strengthen its ability to collect the unpaid revenue deficiencies incurred on such mailings by applying deposits intended for future mailings to the unpaid deficiency. We are also considering the feasibility of requiring a nonprofit organization to submit a certification statement each time it submits a mailing at the special bulk third-class rates. The certification will contain a notice that some materials are not mailable at the special bulk third-class rates, and that submission of a false statement may subject the organization to financial penalties.

Added to these measures, we plan improved distribution of educational materials such as brochures and precedent rulings. We ask Congress to support these actions. However, measures such as these are merely palliative, and cannot truly eliminate the practice of entering impermissible cooperative mailings into the mails at the special bulk third-class rates. Indeed, as the Inspection Service audit report makes clear, the typical commercial participant in cooperative mailing ventures is quite sophisticated, and already well aware of the regulations in this area. There is accordingly little reason to suppose that intensified educational efforts will effect a reduction in the volume of abuses reported.

If Congress renews its consideration of an appropriate legislative remedy, any resulting measure, as a practical matter, must go beyond requiring that the sale of products or services by a nonprofit organization relate to the purpose and function of the nonprofit organization. Apart from being highly subjective and difficult to enforce, such a measure would not eliminate the problems inherent in an after-the-fact enforcement method which necessarily must be applied today. Cooperative mailings would accordingly remain a reality, and the Postal Service would still face the task of searching out the motives

of mailers, and attempting to chase down and collect revenue deficiencies after the fact. Therefore, we believe that measures stronger than those we can effect ourselves are essential, and recommend that such measures should focus on eliminating completely nonprofit rate eligibility for mailings which solicit the purchase of products or services offered by a for-profit company or organization. We believe that legislation of this type offers a practical approach to the problem, and will put mailers on notice that certain types of advertisements are simply ineligible for the special bulk third-class rates.

We would be pleased to work with the Appropriations Committees on this approach.

Sincerely,

Anthony M. Frank

Anthony M. Frank

Honorable Jamie L. Whitten
Chairman, Committee on
Appropriations
House of Representatives
Washington, DC 20515-6015

cc: Honorable Edward R. Roybal

EXHIBIT I

TABLE 8

TYPES OF ADVERTISING WHICH THE COMMISSION RECOMMENDS AS BEING ELIGIBLE AND INELIGIBLE TO BE MAILED AT THIRD-CLASS NONPROFIT RATES

TYPE A ELIGIBLE	TYPE B INELIGIBLE
MERCHANDISE	
- Handmade by organization or population it serves	- Imprinted with identifying symbol of organization
- Merchandise is related to the organization's function	- Any other ads for merchandise (including any other subscriptions)
- Subscription to organization's own magazine or journal	
TRAVEL SERVICES	
	- Travel to organization conference or convention
	- Travel with organization for educational or cultural purpose
	- Travel with organization (non-specific purpose)
	- All other travel services
FINANCIAL SERVICES	
	- Financial services associated with organization
	- Financial services not associated with organization
INSURANCE SERVICES	
	- Insurance associated with organization
	- Insurance not associated with organization

TYPE A ELIGIBLE	TYPE B INELIGIBLE
EDUCATIONAL SERVICES	
- Associated with organization's function	- Not associated with organization's function
CULTURAL	
- Associated with organization's function	- Not associated with organization's function
SOCIAL SERVICES	
- Associated with organization's function	- Not associated with organization's function
ORGANIZATION FUNCTIONS	
- Meetings, parties, receptions for which there is a fee	
ALL OTHER SERVICES	
- Associated with organization's function	- Not associated with organization's function - Ads for local stores and services

EXHIBIT II

THIRD-CLASS NONPROFIT MAIL
FY 91 APPROPRIATION REDUCTION
UNDER OMB ADVERTISING PROPOSAL

Description	Calculation
Any Type B Ads Factor	.13 1/
More Ads than Content Factor	X .16 2/
More Ads Factor	= .0208
Any Type B Ads Factor	.13 1/
Only Ads Factor	X .29 2/
Only Ads Factor	= .0377
More Ads Factor	.0208
Only Ads Factor	+ .0377
Predominantly Ads Factor	= .0585
FY 91 Third-Class Nonprofit Appropriation	X $383,980 3/
Appropriation Reduction	= $ 22,463

1/ 1986 Postal Rate Commission Preferred Rate Study, Appendix D, Table 14.

2/ 1986 Postal Rate Commission Preferred Rate Study, Appendix D,Table 18.

3/ FY 1991 Preliminary Revenue Forgone Appropriation Request.

TABLE 14

TYPE OF ADVERTISING[a]
SENT BY SMALL, MEDIUM AND LARGE MAILERS[b]

(PERCENT OF PIECES)

	TOTAL NONPROFIT	PROJECTED NUMBER OF MAIL PCS. UNDER 100,000	100,000-999,999	1,000,000 OR MORE
PROJECTED NUMBER OF MAIL PIECES(000,000)	10826	553	1312	8961
PERCENT OF MAIL CONTAINING:				
NO ADVERTISING	72.	53.	67.	75.
ADS FOR GIFT PREMIUMS ONLY	1.	#	2.	1.
ANY TYPE A ADVERTISING	21.	39.	27.	19.
ONLY TYPE A ADVERTISING	14.	30.	18.	12.
ANY TYPE B ADVERTISING	13.	16.	12.	13.
ONLY TYPE B ADVERTISING	6.	7.	3.	6.
TYPE A AND B	7.	8.	9.	7.

[a] See Table 8 for definition of "Type A" and "Type B" advertising.

[b] Categorized by annual volume

SOURCE: POSTAL RATE COMMISSION NON-PROFIT MAIL STUDY JUNE, 1986.
BASED ON CODING OF ACTUAL MAIL PIECES AND POSTAL FORMS.

TABLE 18

AMOUNT OF TOTAL ADVERTISING IN NON-PROFIT MAIL WITH DIFFERENT TYPES OF ADVERTISING[a]

(PERCENT OF PIECES)

	NO ADVERTISING	ADS FOR GIFT PREMIUMS ONLY	ANY TYPE A ADVERTISING	ONLY TYPE A ADVERTISING	ANY TYPE B ADVERTISING	ONLY TYPE B ADVERTISING	BOTH TYPE A & B ADVERTISING
PERCENT OF MAIL CONTAINING:		100.	100.	100.	100.	100.	100.
MINIMAL ADVERTISING		26.	14.	10.	18.	13.	22.
MORE CONTENT THAN ADVERTISING		40.	26.	14.	37.	24.	48.
MORE ADVERTISING THAN CONTENT		29.	16.	14.	16.	12.	19.
ONLY ADVERTISING		5.	44.	61.	29.	51.	11.
NO ADVERTISING							

[a]See Table 8 for definition of "Type A" and "Type B" advertising.

BASED ON THOSE PIECES WHICH CONTAINED ANY ADVERTISING.

SOURCE: POSTAL RATE COMMISSION NON-PROFIT MAIL STUDY JUNE, 1986.
BASED ON CODING OF ACTUAL MAIL PIECES AND POSTAL FORMS.

EXHIBIT III

THIRD-CLASS NONPROFIT
(000's)

FY	Postage	Appropriation
Total		
89	$899,438	$364,266
90	$969,361	$380,209
91	$975,685	$383,980
Contains Any Impermissable Advertising 1/		
89	$116,927	$47,355
90	$126,017	$49,427
91	$126,839	$49,917
Contains Primarily Impermissable Advertising 2/		
89	$52,617	$21,310
90	$56,708	$22,242
91	$57,078	$22,463

1/ 13 percent of third-class nonprofit mail according to 1986 PRC study.

2/ 5.85 percent of third-class nonprofit mail according to 1986 PRC study.

EXHIBIT IV

REVENUE, PIECES AND WEIGHT BY CLASSES OF MAIL AND SPECIAL SERVICES FOR GOVERNMENT FISCAL YEAR 1989
(October 1, 1988 to September 30, 1989) COMPARED WITH GOVERNMENT FISCAL YEAR 1988
(In thousands)

11-24-89
Page 1

Service Category 1/	REVENUE FY 1989 Govt FY	REVENUE FY 1988 Govt FY	Change: 1989 / 1988 Amount	Change: 1989 / 1988 Percent	PIECES FY 1989 Govt FY	PIECES FY 1988 Govt FY	Change: 1989 / 1988 Amount	Change: 1989 / 1988 Percent	WEIGHT FY 1989 Govt FY	WEIGHT FY 1988 Govt FY	Change: 1989 / 1988 Amount	Change: 1989 / 1988 Percent
irst Class Mail:												
Letters and parcels	16,679,207	15,485,866	1,193,341	7.7	55,858,360	55,785,362	72,998	0.1	2,227,248	2,222,847	4,401	0.2
Presort letters & pcl	5,452,795	4,873,127	579,668	11.9	24,153,623	23,293,678	859,945	3.7	894,167	864,460	31,707	3.7
Carrier presort letters	339,153	293,743	45,410	15.5	1,637,914	1,498,629	139,285	9.3	68,010	62,213	5,797	9.3
Postal cards	80,912	73,534	7,378	10.0	539,415	506,467	32,948	6.5	2,698	2,533	165	6.5
Private mailing cards	384,277	394,397	(10,120)	(2.6)	2,434,534	2,578,765	(144,231)	(5.6)	14,600	15,490	(890)	(5.7)
Presort private cards	145,103	128,385	16,718	13.0	1,117,443	1,033,403	84,040	8.1	6,701	6,202	499	8.0
Carrier presort cards	13,175	6,020	7,155	118.9	114,168	53,160	61,008	114.8	684	319	365	114.4
Domestic mail fees	139,795	147,162	(7,367)	(5.0)	---	---	---	---	---	---	---	---
Total First-Class	23,234,417	21,402,234	1,832,183	8.6	85,855,457	84,749,464	1,105,993	1.3	3,216,108	3,174,064	42,044	1.3
riority mail	1,415,249	1,328,497	86,752	6.5	470,831	436,735	34,096	7.8	939,318	924,666	14,652	1.6
Domestic mail fees	571	673	(102)	(15.2)	---	---	---	---	---	---	---	---
Total Priority	1,415,820	1,329,170	86,650	6.5	470,831	436,735	34,096	7.8	939,318	924,666	14,652	1.6
press Mail	571,992	523,804	48,188	9.2	53,388	45,628	7,680	16.8	98,810	84,592	14,218	16.8
ilgrams	10,193	11,831	(1,638)	(13.8)	16,871	19,617	(2,746)	(14.0)	---	---	---	---
cond-class mail:												
Within county	100,326	98,798	1,528	1.5	1,458,827	1,488,271	(29,444)	(2.0)	435,884	441,242	(6,158)	(1.4)
Outside cnty--Regular	1,157,684	1,072,140	85,544	8.0	6,523,394	6,624,691	(101,297)	(1.5)	3,090,127	3,078,826	19,301	0.6
Outside cnty--Nonprofit	241,934	210,104	31,830	15.1	2,485,947	2,309,250	176,697	7.7	602,731	561,483	41,248	7.3
Outside cnty--Classroom	7,453	7,694	(241)	(3.1)	55,286	61,223	(6,017)	(9.8)	33,977	36,589	(2,612)	(7.1)
Total Publishers'	1,507,397	1,388,736	118,661	8.5	10,523,374	10,483,435	39,939	0.4	4,160,919	4,118,140	51,779	1.3
ublishers'-label 3579	11,174	10,678	496	4.6	---	---	---	---	---	---	---	---
pplication fees	696	701	(5)	(0.7)	---	---	---	---	---	---	---	---
Total Second Class	1,519,267	1,400,115	119,152	8.5	10,523,374	10,483,435	39,939	0.4	4,160,919	4,118,140	51,779	1.3
rd Class Mail:												
ingle Piece Rate	203,400	199,967	3,433	1.7	191,157	210,890	(19,733)	(9.4)	81,436	81,376	60	0.1
ulk rate-regular	1,763,560	1,864,676	(101,116)	(5.4)	9,656,996	12,049,160	(2,392,164)	(19.9)	1,216,974	1,487,266	(270,292)	(18.2)
-carrier rt	3,234,107	3,003,540	230,567	7.7	28,707,528	29,209,430	(501,902)	(1.7)	3,909,823	4,126,948	(217,125)	(5.3)
- 5-digit	1,771,307	1,330,502	440,805	33.1	12,365,993	10,530,842	1,835,151	17.4	1,478,550	1,229,095	249,455	20.3
Total regular	6,768,974	6,198,718	570,256	9.2	50,730,517	51,789,432	(1,058,915)	(2.0)	6,605,347	6,843,309	(237,962)	(3.5)
ulk rate-nonprofit	463,236	498,448	(35,212)	(7.1)	5,399,072	5,790,778	(391,706)	(6.8)	369,036	394,155	(25,119)	(6.4)
-carrier rt	141,880	122,950	18,940	15.4	2,620,144	2,245,614	374,530	16.7	171,584	140,457	31,127	22.2
- 5-digit	294,312	238,194	56,118	23.6	3,838,226	3,213,107	625,119	19.5	251,364	192,305	59,059	30.7
Total nonprofit	899,428	859,592	39,846	4.6	11,857,442	11,249,499	607,943	5.4	791,984	726,917	65,067	9.0
ilk mailing fees	42,820	38,960	3,860	9.9	---	---	---	---	---	---	---	---
omestic mail fees	8,875	14,043	(5,168)	(36.8)	---	---	---	---	---	---	---	---
ecial handling	4	54	(50)	(92.6)	---	---	---	---	---	---	---	---
Total Third Class	7,923,511	7,311,334	612,177	8.4	62,779,116	63,249,821	(470,705)	(0.7)	7,478,767	7,651,682	(172,835)	(2.3)
th-Class Mail:												
rcels (zone rate)	391,473	426,163	(34,690)	(8.1)	121,065	142,659	(21,594)	(15.1)	764,133	839,136	(75,003)	(8.9)
nd printed matter	220,991	200,818	20,173	10.0	312,264	308,861	3,403	1.1	802,643	783,940	18,703	2.4
rcial fourth-cl rate	234,934	243,113	(8,179)	(3.4)	153,410	173,828	(20,418)	(11.7)	394,816	510,829	(116,010)	(22.7)
rary rate	59,672	57,474	2,198	3.8	39,193	48,421	(9,228)	(19.1)	234,537	201,614	32,923	16.3
estic mail fees	341	511	(170)	(33.3)	---	---	---	---	---	---	---	---
cial handling	669	990	(321)	(32.4)	---	---	---	---	---	---	---	---
.L. fees	352	366	(14)	(3.8)	---	---	---	---	---	---	---	---
Total Fourth Class	908,432	929,435	(21,003)	(2.3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Mr. ROYBAL. Without objection, then that will be the order.

I have some questions with regard to that report. On page one of the report, you state that the Postal Rate Commission says that certain advertisements should not be considered mailable at the preferred rates. But then on page two of the report you say that current statutes do not restrict the nature of advertising, which may be mailed at non-profit rates. Please explain to the Committee the types of advertising that is allowed and the type that is not and what the statutory basis for the regulation? What is the legal basis for it?

Mr. FRANK. It sounds like a question that would be best answered by our General Counsel, Mr. Cox.

HISTORICAL BACKGROUND ON NON-PROFIT MAIL

Mr. Cox. Mr. Chairman, if I may, let me sketch a short history of this whole situation.

I think it started back in the early sixties, nearly 30 years ago, when the Congress undertook to—of course, in those days, as you remember, the Congress was setting postal rates—and the Congress undertook to provide for reduced postage rates for certain defined categories of so-called non-profit organizations: educational organizations, religious organizations, there were eight of them in all. The gist of what the Congress said at that time was that if an organization of that kind brings in bulk third-class mail to the Postal Service, it shall be mailed at the reduced rate.

So, if you just read it literally, and don't let your good sense overcome the literal reading of it, if I were a non-profit organization that was eligible and Mr. Coppie here were a rabid commercial entity out there selling for profit all day long, if I brought in some of his mail, literally, the statute would have provided for non-profit rates because I mailed them.

Now, that clearly was never intended by the Congress and nobody in the Postal Service ever read it that broadly as far as I know. But what happened was that over a long period of time and in different ways, the existence of these reduced rates became kind of attractive to people; almost as though you set up something to trade on somebody else's tax break, and we had gone through a long sort of protracted series of skirmishes—sometimes in court—about where you draw the line to try to defend that original Congressional purpose.

Well, back about in the seventies, I think, we put a lot of emphasis on the idea of who really owns this mail, who paid for printing it, and that kind of thing. If the non-profit organization did it, then presumably it was their mail. If it was done by somebody who was not eligible, then presumably, it was not eligible. But that's a difficult one to run down. We, along the way, had some litigation which I think we have submitted an explanation of in that February 1st letter involving the National Teachers Association where the court affirmed that yes, indeed, we would be derelict in our duty if we read this thing literally and stupidly.

But we have continued to carry out the Congressional purpose, but it is still pretty darn vague. It is tough for an acceptance unit clerk at the Postal Service to make decisions on who owns the mail

or on who benefits from the mail or for whose purposes was the mail concocted. We, nevertheless, continue to try to apply those kinds of tests and it usually has to be done after the fact, because if you probe into a contractual relationship between a university, for instance, and somebody that is promoting foreign travel, for instance, and you try to dig into the contractual arrangements between those people which gave rise to a mailing, you cannot do that while you are accepting mail on the back dock of a post office. And so, we have had problems in retroactive enforcement. Not infrequently, mailers come in and get a sort of quick reading on what they think is the appropriate rate and then they pay their postage and then, you dig into it later and find out the quick reading was not an accurate reading and there is a whole lot of tension that results from that, as you can well imagine.

Now, that is a very broad brush sketch in general. I don't know if Mr. Coppie wants to add anything to that.

EXAMPLES OF ADVERTISING IN NON-PROFIT MAIL

Mr. COPPIE. Well, I will just simply supplement it by giving you some tangible examples, Mr. Chairman and Mr. Skeen. He mentions travel. Here I have a mailing advertising a trip to the Swiss Alps, Italian Lakes, sponsored by the Carnegie-Mellon University Alumni Association. This is mail sent at the third-class preferred rate. But it clearly is a travel brochure and it begs the obvious question as to whether that should qualify for the preferred rate.

A second example, I have another mailing from a fraternal organization, mailing to its membership, promoting a special Mastercard. Again, it begs the obvious question as to whether this should qualify for the preferred rate.

A third example is insurance. This one is a little more complicated because the sponsor is a non-profit, representing the profit-making insurance company. Their constituency, or the constituency that they are trying to go after is a college alumni association. But the objective is to sell group life insurance.

The issue here, then, Mr. Chairman, as we are pointing out, is the non-profit organization receiving a subsidized rate entering into a joint venture with a profit making organization, and the question is whether that is acceptable. And in order to get at an answer to that question, you really have to go back into the history of the contractual relationship between the non-profit organization and the profit making organization and it is a very complex, very difficult, very sensitive issue. It creates a lot of problems for us and we know it creates a lot of problems for you and we are interested in getting it resolved.

PROPOSED SOLUTION TO COOPERATIVE MAILINGS

Mr. ROYBAL. Last year it created quite a bit of a problem. This was the subject of discussion at the conference with the Senate and their argument was that if a non-profit organization that is eligible at the present time joins a for profit organization in selling a product, they lose their eligibility. I don't know whether that is the way to go.

I think that you have clarified the situation, but have come up with what I believe to be a partial solution in the recommendation that you made. At the end of your report, you make a recommendation which would eliminate completely non-profit rate eligibility for mailings which solicit the purchase of products or services offered by a for profit company or organization, which is the position that was taken in the conference by the Senate.

Exactly what are we talking about? How many non-profit organizations would be affected by this proposal and would it take special legislation to do this? Is this something that we could do in the appropriation process? What is your recommendation?

LEGISLATION NEEDED TO CURB ABUSE

Mr. FRANK. I think it would take legislation, Mr. Chairman. We have submitted some possible draft legislation. I would just like to make a couple of clarifying points.

As I understand it, this prohibition against cooperative mailing would deal exclusively with third-class, not second-class and as to how many organizations are involved, we think that there are several hundred profit making organizations, but of course, each one of them could have hundreds, or even thousands, of organizations through which they work. It would clearly be in the thousands of non-profit organizations.

Mr. ROYBAL. But a lot of the advertisements we get at home get preferred mailing privileges, do they not?

Mr. FRANK. They clearly——

Mr. ROYBAL. And that would include some of the big corporations in this country.

Mr. FRANK. Yes, it does fall into the categories that Mr. Coppie illustrated; mainly insurance, travel, and credit cards.

Mr. ROYBAL. Was the original purpose of revenue forgone to protect those corporations?

Mr. FRANK. Well, I think not.

Mr. ROYBAL. That, I think, is the answer. It was not in my opinion.

Mr. COPPIE. We want to carry out the intent of Congress. What is really needed, I think, is a further clarification of the intent of Congress with regard to what qualifies.

Mr. ROYBAL. I don't think that we, as the Appropriations Committee, can make that clarification. It should be done by the authorizing committee. But I agreed, not the committee as a whole, but I agreed that if it was not done by the time we came up to the conference, if it wasn't done by the Authorizing Committee, then I would agree to discuss a solution.

Mr. FRANK. Yes, sir.

Mr. ROYBAL. Now, that commitment doesn't include the entire committee, but nevertheless, it is a step towards eventually solving this problem.

Mr. FRANK. Well, I do want to emphasize that this particular problem involves about 5 percent of monies that are involved in the revenue forgone. In other words, I think one of the ways to look at this is if we fix this aspect of the problem, we further legiti-

matize the enterprises that Congress has determined fully deserve preferred rates.

It would be a cleansing matter. It would involve about 5 percent of the funds—about 21 million dollars annually, we believe.

Mr. ROYBAL. I sent a letter to the authorizing committee and the Chairman responded. It was a response which reflected what you said, that it is a complicated situation. He could not predict whether legislation is necessary or desirable and then he went on to say that he doubted very much that the legislation could be passed in time to have any effect on the monies required for this year's revenue forgone appropriation.

You know, between now and the time you get to conference, committees sometimes do not move that fast and they do not take things to the floor that fast. This is a very complicated area. But it is going to be a subject matter of discussion in conference and we may have to come up with some resolution of that problem; otherwise, we are not going to have a bill.

We will, at least as far as I am concerned anyway, consider your guidance and if I happen to interpret it just slightly different, it will be your fault. [Laughter.]

But I still think that something has to be done. Particularly when, like I do, I go to California and after three weeks in Washington, the mail is left through a slot in the door. That hallway there is just packed with nothing but junk mail, plus bills, and some of that advertising is subsidized by taxpayers.

DIFFICULTY IN EVALUATING ADVERTISING CONTENT

Mr. FRANK. Certainly the third-class preferred mail rate is subsidized. I would just like to echo one thing that has been a threat already. Our people out in the field who accept mail at 40,000 locations and several hundred thousand collection boxes are not attorneys or versed in evaluating content. We don't have clean crisp rules to enable us to accept or reject the mail.

Mr. ROYBAL. All right. Now, one last thing, you requested $484,592,000 for revenue forgone. Does this amount maintain nonprofit rates at present levels until the end of Fiscal Year 1991, September 30, 1991?

Mr. FRANK. Yes, sir.

Mr. ROYBAL. There will be no changes?

Mr. COPPIE. The only change would be if our rate increase goes into effect and it is currently expected to go into effect in February of 1991, which would be in the 1991 Fiscal Year. We would require a supplemental because we don't know what the rates will be at this point in time. Obviously, we are not prepared to offer that at this point in time.

Based on what we know today, this is the——

Mr. ROYBAL. And you are not prepared to take it from the increased postage rate?

Mr. COPPIE. That is correct.

Mr. ROYBAL. Have you let it be known what the new rate will be?

Mr. COPPIE. We have not, Mr. Chairman, except to the extent that the Postmaster General has given some recognition to that in his remarks, but the actual rate is not listed.

Mr. ROYBAL. Mr. Skeen?

MAGNITUDE OF MISUSE IS SMALL

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Frank, Mr. Postmaster, in connection with this discussion that we were having and I would like to go just a little bit further with it. You have in your statement, I think, you made some remarks about a 5 percent increase in rates may be necessary or you left it as an increase? Going back to this not-for-profit mailing, it is a tremendous problem and I understand that you have some suggested legislation or clean up.

Mr. FRANK. We do have. Although, I want to emphasize again, we only have a problem with between 5 and 6 percent of the non-profit mail. It is not an overwhelming problem. I would not say it is a tremendous problem. It is a problem to make sure that the intent of the Congress applies to the non-profit and not for profit mailers.

Mr. SKEEN. Well, in these days and times, with restricted budgeting, 5 percent could make a lot of difference in this thing. I know that you understand our position in this thing and I also understand that the authorizing committee, Mr. Chairman, is going to have hearings on rates. When do you appear before them?

Mr. FRANK. March 1.

Mr. SKEEN. March 1 and that is probably the proper place to do it. But it would seem to me that your biggest problem is coming up with some kind of legislation.

Mr. FRANK. And definition.

Mr. SKEEN. And definition that cuts out at the dock, decision making. There is no way that you can do this unless you have a very clear cut piece of legislation and I don't know of anybody that can draft that kind of——

Mr. FRANK. Well, I should clarify that. We now recognize we cannot and should not do it at the dock. It delays the mail, it is asking expertise of——

Mr. SKEEN. People who are not ready.

Mr. FRANK [continuing]. Who are not expert but have to make those judgments.

Mr. SKEEN. You can't do that.

Mr. FRANK. They are not able to deal with that. So, we really do it after the fact as Mr. Cox pointed out.

Mr. COX. But I do want to mention that if you think of the examples that Mr. Coppie was showing here a moment ago, some of these things stood out as these travel inducements. It is pretty simple for any employee with the Postal Service to spot that as a travel promotion.

RECOVERY AGAINST NON-PROFIT MAILERS

Mr. SKEEN. Well, probably, a better suggestion is to furnish those qualified mailers something to go on. Have you ever done any recovery action?

Mr. FRANK. Yes, of course.

Mr. SKEEN. How successful has that been?

Mr. FRANK. Quite successful.

Mr. SKEEN. In other words, egregious violation of the——

Mr. FRANK. Certainly.

Mr. SKEEN [continuing]. Law, then you've taken them to court for recovery. You do not even have to go to court.

Mr. FRANK. We don't need to go to court.

Mr. SKEEN. Good. Well, I was curious about it, because I don't want to feed too many lawyers in this process. With all due regard to the attorney.

Mr. HOYER. Don't get carried away there.

Mr. SKEEN. We're not carried away, we're just trying to conserve our resources. But it is a problem that we ought to probably address and through legislation if we can. I would take the suggestions that you made seriously and intend to give you some. Maybe it will work with the authorizing committee. This is not the place to do it, because we will get struck down on the point of order anyway.

COST AND REVENUES OF INTERNATIONAL MAIL

Let me ask you a question that is something that has cropped up in some discussions. In the Postal Services overseas mailing, is there any subsidization or what is your cost figure on overseas mailing? Are you making money with it at the rates that you are charging now or are you having to subsidize it out of regular revenues?

Mr. FRANK. No. We make money.

Mr. SKEEN. You do make money?

Mr. FRANK. Sure. We can't afford to subsidize one part of our——

Mr. SKEEN. So, you don't?

Mr. FRANK. We don't, no.

AREA MAIL PROCESSING

Mr. SKEEN. More and more parochial situations. We've had a complaint from the Las Cruces offices there that all the mail is cancelled now in El Paso and they have lost their identity as far as the Postal Service is concerned.

I don't know, what was the rationale for this change.

Mr. FRANK. If you'll permit Mr. Kane to comment on that?

Mr. KANE. Last May, the Saturday portion of Las Cruces' collection mail was transferred under our Area Mail Processing, or AMP, program to El Paso. This AMP decision was based on an economic analysis in part. We take the costs involved at the origin point and work it through an economic analysis versus the potential processing point to see what the relationship looks like. Can they maintain the service? Yes. The Saturday portion went in last May.

Mr. SKEEN. Just the Saturday portion?

Mr. KANE. Just the Saturday. As of now, I do not have another request at this point. So, it was a Saturday move that was made

last May and we don't have anything at this point for the other days.

Mr. SKEEN. Is this a practice service-wide that you do this?

Mr. KANE. Oh, yes.

Mr. SKEEN. May I make a suggestion to you if you do that. I think probably the big problem as far as—it is a very rapidly developing community over there, isn't it? If you are going to stamp it or cancel it someplace else, let them put the Las Cruces stamp on it on Saturday. Does that create a tremendous problem?

Mr. KANE. Yes, it does.

Mr. SKEEN. We are good at creating problems. We are not good at taking care of them.

Mr. KANE. Yes. It creates a problem in a couple of ways. Well, first of all, we leave local collection boxes at the Las Cruces office for the customer, with instructions on it that if you want the local Las Cruces postmark, deposit the mail in that box.

But the problem with putting that postmark in another office is twofold: one, you have to stop the entire operation and purify the system. You've have to take all the mail out of the mechanical system to change the cancellation die. Then we put the mail for a different office, Las Cruces in this case, back into the system, and pass it through. Then again, we have to purify the entire system.

Mr. SKEEN. So, you lose any beneficial or cost efficiency?

Mr. KANE. Yes. And the other problem is it bumps up against time from a service point of view because everytime we clear the system out, you are pushing against out operating plant time.

Mr. SKEEN. You convinced me.

Mr. ROYBAL. But how far is Las Cruces from——

Mr. SKEEN. Forty miles. They want our water, now they got our mail. El Paso never quits. [Laughter.]

Mr. ROYBAL. Thank you. Mr. Akaka?

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Frank, it is good to see you again. Welcome to the committee.

Mr. FRANK. Thank you, sir.

STATUS OF AIEA POST OFFICE

Mr. AKAKA. I still hear some good things from California about Mr. Frank. We are happy to have you here.

First, a provincial request from my district, I want to ask that you give me a status report on the Aiea post office. Since 1985 there has been a scramble for a post office there, and now it has moved to an area called Moanalua and people are complaining that there are not enough parking spaces and it is inconvenient and all of that. I want to know what is the status of the effort to build a new area office.

Mr. FRANK. We will get it to you within a week.

[The information follows:]

ASSISTANT POSTMASTER GENERAL
Government Relations Department
Washington, DC 20260-3500

MAR - 2 1990

Honorable Daniel K. Akaka
House of Representatives
Washington, D.C. 20515-1102

Dear Congressman Akaka:

This is in response to your inquiry to Postmaster General Anthony M. Frank at the February 22 appropriations hearing, concerning the Postal Service's plans to build a new post office in Aiea.

Honolulu Field Division officials advise they have advertised for sites within the city limits of Aiea on several occasions during the last few years; however, no suitable sites were ever offered. We were negotiating with the Navy Department for the acquisition of an existing structure. Unfortunately, the negotiations were not successful, as the Navy's offer would have required considerable additional expense for us to relocate the laundry they have on the property now and to demolish the old laundry building.

Currently, the Pearl City Post Office houses the carriers who deliver mail in Aiea. Postal officials recently conducted an on-site inspection of our operations in the Aiea area and found that the Pearl City facility is adequate to meet the delivery service needs of Pearl City and Aiea. Therefore, Western Region officials scaled down the space requirements for the Aiea facility project. Our plan now is to lease or buy a site for a retail unit only.

Real estate officials recently advertised for sites according to the revised space requirement package. I understand the site advertisement closed on February 20, and postal officials are now evaluating all offers. We are hopeful that we will be able to secure a suitable site from those being made available.

The Postal Service considers many factors when evaluating the site for a new postal facility. Some of these factors are: the availability of land, the improvements necessary to the land before it can be used, the size of the property compared to the needs of the community and the Postal Service, the accessibility of the site by vehicular and pedestrian traffic, and the site preferences voiced by representatives of the community involved.

Our intention is to provide improved service at the new location. Our plans call for 34 parking spaces to be provided, including space for the physically handicapped. The new office will be more than four times the size of the existing facility; therefore, the number of post office boxes will be doubled. Parcel lockers will also be provided for the convenience of our customers.

Because of the time involved in completing the site selection process and the design phase for this project, we do not expect to begin construction of the new office until 1991. Nonetheless, please be assured that every effort will be made to complete this project as quickly as possible.

If I may be of further assistance, please let me know.

Sincerely,

William T. Johnstone

Mr. AKAKA. In light of the competition from private firms in service areas, and the rapid expansion area of telecommunications, the postal service needs to respond quickly in determining customer expectations. I understand that you are planning to make a service assessment. Can you explain how the survey is being conducted?

REVIEW OF MAIL SERVICE STANDARDS

Mr. FRANK. Yes. We have grown some geographic areas in which we give overnight service, two day service, and three day service. Basically coast to coast in three days, and within the city, obviously, overnight. But then some of the other areas within those extremes are somewhat arbitrary. They grew out of old alignments in the 1970's and even before, such as relationships between cities, interchange, volume of mail, traffic patterns, and all the rest. We think it is time to take a relook at that.

So what we did is nothing very cosmic. We asked some 26,000 individuals and businesses what they wanted from the mails. The questionnaire basically asked them "what is important to you?" They said three things: one, consistency. They want the same amount of time to deliver a letter every single time. They were really somewhat less interested as to how long it takes, but they want a consistent period of time. Second, they want their mail at the same time every day. Third, they want their local mail delivered overnight.

Then we asked them "what is local?" That was a revelation. Their definition of local is a lot narrower than our definition of local.

So what we are doing is collecting recommendations from our people. They are being processed this week at headquarters, and Mr. Kane has the basic responsibility for that. Then in the middle of March we will have recommendations for changes in the territory that will go from overnight to two days. We will put that out for a 60-day comment period by customers.

I can tell you in advance that the changes will not be at all dramatic. I believe that even before we modify these in accordance with the comment period, which will be nothing but less overnight and more second day, it looks as though about six percent of our mail will go from overnight to two day. The distance that is involved there averages around 150 miles. So, we are in effect saying that six percent of our mail we are now trying, sometimes quite unsuccessfully, to deliver overnight will go to two day delivery. We are eliminating overnight delivery for mail that on average travels more than 150 miles. I think this makes sense considering the fact that we take mail until 7:00 or 8:00 or 9:00 o'clock at night and sort it and transport it and deliver it. So I think it is going to be relatively a non-event.

Two other quick things. One is there is a very definite tradeoff here, and that is that consistency of delivery must improve, otherwise it is a lose situation for the public, and we want it to be a win. So we will improve the consistency of delivery. We have been doing this for a year in New York City on an experimental basis. We have had one complaint in New York, and I do not want to impugn

New York, but my experience is if you say good morning to 100 people you get at least one complaint, and we have gotten one complaint in all of New York, and the consistency is up. We have improved the percent of overnight mail that we deliver by four percentage points.

One last very quick point, so that these are not just words, we have engaged Price Waterhouse, one of the Big Six accounting firms, to monitor our mail and to report to the American people how the mail service really is. Not how we say it is, but how they say it is. That was a long answer.

Mr. AKAKA. You speak about consistency your five year strategic plan. This is an important point. However, does this mean that interstate delivery times may be negatively affected by the emphasis on local consistency?

Mr. FRANK. It could, but I do not think dramatically. We have some delivery areas that would be exceptions. It would not apply to Hawaii, where we have distances of 400 to 700 miles that are quite difficult to do in two days. But again, we will be putting that out for comment.

I believe the situation will result in improved service and no complaints like we have seen in New York. I do not think this is a major undertaking.

Mr. AKAKA. Finally, I have another question, but I will give up after this one. I wondered how will this affect Hawaii delivery as compared to the mainland.

Mr. FRANK. We are right in the process, obviously. We can get you an answer within the week. I just do not know.

Mr. KANE. I do not know. We have a team reviewing the regional packages. The next step is a two month comment period to push the tentative changes back down to the customers again for another look and then bring the changes to the implementation stage. So it is going to take another few weeks to finish up the process.

Mr. AKAKA. I would like to know after you.

Mr. FRANK. We will get you chapter and verse. I would say, obviously all mail that leaves Hawaii goes by air and that clearly is not going to change.

Mr. AKAKA. Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Hoyer?

Mr. HOYER. Thank you.

General, it is good to see you again.

Mr. FRANK. Thank you.

Mr. HOYER. I think you are doing an outstanding job with a difficult job, certainly. Let me just ask a couple of questions that are also in some respects parochial, but in others not.

ADVERTISING IN NON-PROFIT MAIL

In your testimony you indicate non-profits, et cetera, mailings of educational organizations that are not schools. The University of Maryland Alumni Association, I guess, and other universities, I have heard from the University of Iowa through Dave Nagle, and I am sure there are others that have been similarly situated. Apparently in 1988 they heard there was a study of this being made and asked the local postal authorities, as I understand it, to give them

a bulk rate rather than a preferred rate. In other words, they were asking for the higher rate. The postal authorities there made a determination, apparently, no, we are going to continue you under the subsidized rate.

Now, as I understand it, and this went along until November of 1989. Then in November of 1989 they got caught, I suppose. I do not know exactly what the procedure was. They are going to be hit, apparently, with an $8,000 penalty.

Now they are more than prepared to perspectively—and this is the Alumni Association, so it is not a fat cat. To the University of Maryland an $8,000 penalty I guess would not be a big deal for them, but for the Alumni Association it is a big expense. I guess I ought to say for the record in this area of disclosure, of course, that I am a University of Maryland graduate and a member of the Alumni Association. I know all of you would want to know that, which is located, by the way, in Prince Georges County. [Laughter.]

Mr. ROYBAL. Isn't everything? [Laughter.]

Mr. HOYER. The Chairman is concerned that I am going to propose moving either the Capitol or the White House to Prince George's County, but I am not, honest.

The University understands perspectively, you know, the rules are such and such, they will follow the rules. As a matter of fact, ironically, they had, because they had heard this rumor, they said, give us the bulk rate. I don't know whether it was the local postmaster, or who, made the judgment, no you are qualified for this subsidized mailing.

The University of Iowa is the same situation. Maybe others.

Have you looked at, and would it be appropriate to look at, applying this prospectively to these kinds of organizations? $8,000 is not much to you guys, but to the Association it may be.

Mr. FRANK. First of all, the determination has not been made to assess the $8,000 penalty. Second, I had never heard that we discouraged them from using one rate in favor of another. And it seems to me if that is the case, that certainly puts a whole new light on the thing. If it is our mistake in advising them, I think we have to take a re-look at it. Of course we would.

Mr. HOYER. I do not know whether Iowa is in that situation, but they indicate to us that that is what happened. Because they had heard this rumor in 1988 that this was being looked at, and maybe they didn't qualify, because they advertise the trips.

Mr. FRANK. Let me see if I can shop for an opinion here.

Mr. COX. Let me take refuge in trying to play lawyer.

Mr. HOYER. Let's not beat on ourselves, counselor. There are enough people like Mr. Skeen who are ready to beat you up. [Laughter.]

Mr. COX. Clearly, we are going to want to have a hard look at it, Mr. Hoyer. The usual rules that everybody knows about, about agents having apparent authority to bind their principals, and all that kind of thing, part of the commercial life of this country, really don't apply in the case of the government.

Mr. HOYER. It makes sense.

Mr. COX. I might stop with that.

Mr. HOYER. I understand. I think what the General is saying is obviously, if they went into the postmaster, the local postmaster,

clearly he does not have the legal authority to bind the post office. He can misinterpret either the rules or the law and have the individual who is charged with the responsibility to know the law piggy back on that misinterpretation. I understand that.

But from an equitable standpoint, if that happened—because they say when they heard this rumor in 1988 that it was being looked at and said, we may not—as a matter of fact, I have a letter here, November 28, 1989, directed to Ms. Esther Richards, Field Division, General Manager, Postmaster, Southern Maryland Division, Capitol Heights, et cetera. "Dear Ms. Richards, from Tom Bush, the Executive Director of the Alumni Relations," which I will let you see, in which they say, "As you know, on three separate occasions the Association mailings were unilaterally changed by postal employees from the commercial rates to the non-profit rate even after the Association requested the higher rate," because they did not want to get in this position where they wanted to take the risk. They figured if it is a close question we will pay the extra rate.

We can get this to you, and maybe you can look at it.

Mr. Cox. Sure. I'd be glad to.

Mr. FRANK. I hate to suggest it, but maybe we will depart from the usual practice and apply common sense here. [Laughter.]

[The information follows:]

ERRORS IN THE HANDLING OF THE UNIVERSITY OF MARYLAND ALUMNI ASSOCIATION'S MAILINGS

The Postal Service has determined that on three occasions the postage on regular bulk third-class rate mailings submitted by the University of Maryland Alumni Association was erroneously recalculated by mail acceptance personnel at the special bulk third-class rate. This action was apparently based on the fact that the Association holds a nonprofit mailing permit, and not on an analysis of the purpose or contents of the mailings. It was subsequently discovered that the mailings, which advertised group travel plans, were not eligible to be mailed at the special rates. A postage deficiency was accordingly assessed against the Association for the difference between the special rate postage mistakenly charged on the mailings and the regular rate postage the Association had originally intended to pay.

The inconvenience caused by these errors is regretted. These incidents illustrated the difficulties that arise from the fact that violations of the cooperative mailing rules are most commonly discovered long after the mail has been accepted. In response to a request from the staff of the House Appropriations Subcommittee on Treasury, Postal Service, and General Government, the Postal Service has submitted a legislative proposal which is designed to prevent this type of occurrence. The draft bill would enable our mail acceptance personnel to apply the regular rates to mail containing certain types of advertising, whether or not it is submitted by a nonprofit organization.

Mr. HOYER. You know, your reputation in California is for doing that, and you are going to get in a lot of trouble in Washington.

Mr. FRANK. I already have. [Laughter.]

Mr. HOYER. Are there a lot of groups falling in that category?

Mr. FRANK. I do not think so, but I again want to say what I said in response to another question. We have difficulty making determinations at the dock, so that most of our determinations are after the fact. That is about the only way we can handle it and keep the mail going. So we have a fair number.

ILLEGAL DRUGS IN THE MAIL

Mr. HOYER. Let me ask you a second question, and then I will stop, Mr. Chairman.

The drug problem. You folks are experiencing that, drugs in the mail. How extensive is the problem now? As a result of your applying investigatory techniques making it perhaps more dangerous, are you seeing a decrease, an increase, or about status quo in terms of use of the mails to transport illicit substances?

Mr. FRANK. It is very difficult for us to develop statistics. We are not allowed by law, as you know, to open the mail. But I can tell you that our volume of arrests dealing with drugs in the mail have trebled over the past two years. I think it is two years. I cannot tell if that means we are doing a better job or we are getting better cooperation from other agencies, which I know is the case, or the volume is up. But it is a problem.

I met with Director Bennett of the DEA, and with Commissioner Hallett of Customs, personally, both in recent weeks. We are all working very closely together. Our inspectors tell us that they are very pleased with the cooperation between agencies.

We are handicapped, and we should be, I want to emphasize, that we cannot open the mail, whether it is a bomb or a plant from Hawaii or drugs, unless we have a search warrant.

Mr. HOYER. And I agree that is appropriate. But I know your techniques are getting more sophisticated. That would be one reason arrests are up. One could also conclude, perhaps there are greater incidents and, therefore, more likelihood of it.

Mr. FRANK. There are a lot of multiple packages mailed.

MAILING OF LARGE SUMS OF MAIL

Mr. HOYER. Is it legal to mail large sums of money in the mail? Is there any Federal law that prohibits that?

Mr. COX. I do not think there is any law that prohibits that. Certainly none I am aware of. There may be Federal laws related to banking on things over $10,000. I simply do not know about that.

Mr. HOYER. I am sure there are prescriptions for mailing large sums of money out of the country, but intra.

Mr. COX. We would be glad to get you something on that. On the other hand, we know it happens.

[The information follows:]

LARGE SUMS OF MONEY BEING SENT IN THE MAIL

Apart from the practical limitations imposed by size and weight limits, there is no specific legal restriction the amount of currency which can be sent by mail between locations in the United States. Indeed, the fee schedule for registered mail service is designed to accommodate shipments valued above $15 million. (The maximum amount of postal insurance available on any registered mail shipment is $25,000.) Other, nonpostal statutes, most notably the Bank Secrecy Act, the Money Laundering Control Act of 1986, and the Money Laundering Prosecution Improvements Act of 1988, impose reporting requirements on certain currency transactions and establish criminal penalties for the interstate transportation of currency for certain illegal purposes, whether or not the use of the mail is involved.

Mr. HOYER. Yes, that is what I was getting at.

Thank you, Mr. Chairman. I have some other questions, but I will submit them for the record.

Thank you, Mr. Frank. And again, General, I want to say that I have been very impressed, my office has been very very impressed with the dealings with your office and with your administration. I personally believe that the Postal Service is in very good hands.

Mr. FRANK. Your words are important to us, very important. I hope the reporter has them down. [Laughter.]

Mr. HOYER. Thank you, Mr. Chairman.

NON-FUNDED LIABILITIES

Mr. ROYBAL. Mr. Frank, what specifically is a non-funded liability?

Mr. FRANK. It is an obligation for which no funds have been authorized.

Mr. ROYBAL. You are asking for $38.1 million for that purpose in 1991.

Mr. FRANK. Yes.

Mr. ROYBAL. Why are you going to need it during 1991?

Mr. FRANK. That will be money that we will use to reimburse the Department of Labor for medical and compensation expenses of Post Office Department employees.

Mr. ROYBAL. But is that part of the overall budget, or in addition to?

Mr. FRANK. As I understand it, when the Post Office Department disappeared and became the Postal Service, Congress recognized that a liability was being carried over to the new entity. They said that is not fair to burden the new entity with that, so we will continue to pay for medical and compensation expenses for Post Office Department employees' Workers' Compensation. So that is what this item is.

Mr. ROYBAL. But they will continue to pay the Postal Service's share of Medicare and other things? Is that what we are talking about?

Mr. COPPIE. No, we are talking about Workers' Compensation.

Mr. ROYBAL. Just Workers' Compensation?

Mr. COPPIE. That's all. What we have here is a declining number of cases, but because of inflation, the actual cost has increased over time. We started in 1972 with a little better than 26,000 cases. It is down to 2,600 cases today. Obviously that will ultimately go to zero as the recipients become deceased.

Mr. ROYBAL. What would the impact be if funds for non-funded liabilities were not appropriated?

Mr. COPPIE. For this purpose?

Mr. ROYBAL. Yes sir.

Mr. COPPIE. Mr. Chairman, we are simply the agent here for the Department of Labor. The question is more appropriately directed to the Department of Labor. Obviously somewhere along the line it would present a cash flow problem for them, but I would underscore that we are simply the transfer agent.

Mr. ROYBAL. But we are still the committee that is going to make this appropriation.

Mr. COPPIE. That is correct.

Mr. ROYBAL. If we were not to make the appropriation, what would happen?

Mr. COPPIE. Mr. Chairman, there are three years or four years when you did not make the appropriation. That liability remains on the books. It is a little better than $156 million.

Mr. ROYBAL. So, if we do not make the appropriation it causes a funding problem?

Mr. COPPIE. The funding problem remains with the Department of Labor. It is a question that is better directed to the Department of Labor. I simply want to underscore that we are only the transfer agent, as authorized by law.

Mr. ROYBAL. The reason I ask that question is because you are requesting a budget that is $26 million more than last year. We are going to be facing quite a budget situation this year, and we may have to consider some kind of reduction. I was just looking at the $38 million, wondering to myself about whether that may be one place we can reduce, if it is necessary. Now, by being necessary, I do not mean that we will make that decision. That decision may be made for us. We will get an allocation, and they will say to us, you cannot go above this allocation. Then we have to look around to find out how we can comply with it. That is going to be the problem.

Mr. FRANK. I believe what happens—and stop me if I am wrong—is the Department of Labor keeps paying the bills for these 2,600 people, but they have no offset, Labor has no offset for that.

Mr. COPPIE. As a practical matter, Mr. Chairman, there is a Workers' Compensation Fund in the Department of Labor, and that fund apparently continues to have adequate cash. If it were to stop today, and the number of cases were to continue, somewhere along the line it would run out of cash as a result of the shortfall of appropriations attributable to the Post Office Department. That is the practical answer to your question, but I think again, I want to underscore, it is more appropriately addressed and answered by the Department of Labor in terms of what the long—term consequence of this is.

Mr. ROYBAL. We still have to face that eventuality when the time comes. That is, the matter of funding.

FISCAL YEAR 1991 ADMINISTRATION INITIATIVE ON REVENUE FORGONE

It seems to me that we have to look around to see where there could be some reductions of some kind. The Administration has proposed legislation for later transmittal, which I understand simply means there will be a reduction in the revenue forgone appropriations, again talking about reductions.

What is the proposed legislation for later transmittal?

Mr. FRANK. As I said in my statement, we obviously do not know any more than you do. We have some hints from them as to what area it will be. They say magazines, second class, that contain more than ten percent advertising; they say educational entities that are not colleges or universities; they say entities that are involved with political advocacy. I do not know that we are quite clear in the absence of specific language what that latter means. But that is the thrust of what they are attempting to draft legislation for.

Mr. ROYBAL. It seems to me that the Postmaster General is actually not being consulted before planning such legislation. Is that a correct assumption?

Mr. FRANK. That has been the case so far with respect to specific language. I would expect that, before the language is developed,

that they will consult with us to see if we can administer these definitions. If we cannot administer the definitions, we are really worried about some of the definitions that are involved in here. "Political advocacy," I am not quite sure I understand what that means. Does that mean that a union would not be entitled to a preferred rate? Does it mean they could not have a monthly magazine? My answer to that is, I have no idea. I just do not know.

Mr. COPPIE. I think it is worth underscoring what we said about the cooperative mailings. In the area of revenue forgone, we are your agent. Our responsibility is to carry out the intent of Congress. If the law is in some way amended to authorize these changes, then our responsibility is to implement it.

As a practical matter, as the Postmaster General pointed out, there are some real problems in terms of implementing this because of the ambiguities surrounding what we understand of the President's budget proposals.

Mr. ROYBAL. Isn't it very difficult to plan something for the future if you do not know what is being planned by someone else?

Mr. FRANK. I think that is mildly put. [Laughter.]

Mr. ROYBAL. It affects the Postal Service considerably, I would think.

Mr. FRANK. We are very concerned. As you know, last year with the Senate bill there was a question of a definition that we would have had to promulgate throughout the entire Postal Service and give examples and so on. We need lead time and we need crisp, specifics.

Mr. ROYBAL. When you find out, will you let us know about it?

Mr. FRANK. I don't know which one of us will find out first, sir.

Mr. SKEEN. We will let you know if we hear.

Mr. ROYBAL. It has been pointed out to me that if this legislation goes through, that the proposed reduction could be in the neighborhood of $112 million.

Mr. FRANK. Yes, sir.

Mr. ROYBAL. But we don't know do we, for sure?

Mr. FRANK. No, we don't.

CONSULTATION WITH LOCAL COMMUNITIES ON SITE SELECTION

Mr. ROYBAL. Then let's see if we can get to someone else who has more knowledge on it.

I have another line of questions with regard to the Postal Service acquiring and disposing of real property throughout the nation. To what extent do you consult with the locality that is going to be affected, and try to work out a smooth operation?

Mr. FRANK. Well, we do consult. We do consult with local entities. The elected officials and the Chamber of Commerce. Sometimes we have had town meetings, and it has been suggested that we do more in that area, and maybe we should. But we do try to consult very closely.

Mr. ROYBAL. Mr. Frank, I think you can do more in that area. For example, a post office was built in Eagle Rock and had they asked me about the place where it is located, we would have said no. The result has been complete dissatisfaction with it. I think a great deal has to be done in that particular site to try to get the

community pacified. There are all kinds of things reported to me, and they think that because I am on this committee that I just have to snap my finger and something is going to happen. That is not the case, and I do not expect it to be the case. But I think that we should look into that and see what we can do for them.

Mr. FRANK. I have looked into Eagle Rock. We do several hundred buildings a year. I suppose if we have an error rate of one percent that is somewhere between two or three or four buildings a year, and Eagle Rock certainly falls into that category.

Mr. ROYBAL. I agree.

Mr. FRANK. It could have been done better.

Mr. ROYBAL. I agree with you, and I think had there been real consultation with the community the problem wouldn't be as serious, I did not even know about it myself, so I do not think there was any consultation with the community, but there might have been. We do not know. But I hope you can look into that.

Mr. FRANK. Yes, sir.

CAPITAL INVESTMENT PROGRAM

Mr. ROYBAL. What about a construction plan? Do you have a long range plan for constructing buildings?

Mr. FRANK. We do. We have a five year rolling capital program which is under the control of Mr. Coppie. I think on average it provides for $1.2 billion or so for real estate projects per year, which is not a great deal when one considers that our average facility is 35 years old and you have 40,000 facilities. When we build in a large city, a big proportion of that money, of that $1.2 billion, can be eaten up.

We are building a new building in Brooklyn, to replace a 96 year old building, and that building will cost on the order of $175 million. That is close to 15 percent of our real estate budget for that year.

Mr. ROYBAL. Is your postal equipment also 35 years old?

Mr. FRANK. No, it is not.

Mr. ROYBAL. Do you have state of the art postal equipment?

Mr. FRANK. We expend about $1.2 billion a year on new equipment, plus the vehicles which would be another $100 million or so.

Mr. ROYBAL. What about letter sorters and other things that you need to process the mail?

Mr. FRANK. The sorting machines that we have, the cancelling machines that we talked about earlier, in Las Cruces, those are on the order of about 20 years old, and we will be getting replacements starting this September. Those will be coming over about five years. So we are updating, but it takes a lot of money and a lot of time, and of course there is training involved, and there is changing of procedures. You cannot do it all at once, but we do not have the money to do it all at once anyway.

Mr. ROYBAL. But you are working on it, and that is part of the overall plan?

Mr. FRANK. Yes, sir.

RESEARCH AND DEVELOPMENT PROGRAM

Mr. ROYBAL. What about your research and development program? Do you have such a program?

Mr. FRANK. We do have a research and development program. It has been criticized for being too little. We have an Engineering and Development Center in Merrifield, Virginia, and a Technology Resource Department in Headquarters, whose combined budget for research contracts, I believe, is around $85 million a year. We do test from low tech—that is, a new type of mail box, whether it will withstand corrosion—to high tech, how do we automate the processing of magazines, for example. We have a $85 million a year budget. Is it enough? Certainly percentage wise that would be two-tenths of one percent of our revenues for research. In the private sector that would be laughed at, but I think it is appropriate.

VEHICLE PROGRAM

Mr. ROYBAL. What about your vehicle inventory, the status of that? Is that up to date or not?

Mr. FRANK. Again, it is phased in. We have developed in conjunction with General Motors and Grumman what we call a long-life vehicle. We are accepting delivery of those of, I think it is 1500 a month. They are larger, more fuel efficient, and safer than the jeeps. As we accept them, we are disposing of the jeeps. So again, it is a rolling process that will take about ten years to do.

Mr. ROYBAL. If you were sure that you were going to be there for ten years, and you looked at the problems you had today, what would you do in a ten year period?

STRATEGIC PLAN

Mr. FRANK. We have a six year strategic plan that we are committed to making. That strategic plan will lower our costs to a rate of two percent below inflation. That is absent any attempts by the President's budget to impose costs on us now that we are an off-budget agency. I believe that we will accomplish that.

We have gone in two years from running at twice the rate of inflation to running at under the rate of inflation so far in fiscal year 1990. I think we need a continuation of that.

We are constricted in many ways, and we should be. For example, there are many postal administrations around the world that say if you want to use the mail you use one size of envelope and it will be white with black printing, and if it is not 4×5 and white with black printing, we will not accept it. When you go to our facilities, you see the greatest variety of mail and colors and shapes and thicknesses and heights, and so on, that you could imagine. Clearly we could operate more efficiently if we standardized everything, but we have absolutely no intention of doing that. No intention at all. If people want to handwrite their envelopes, people want to do this and that, people want to send pink valentines that do not go through our machines, that is fine. So we do have constraints, Governmental and self-imposed. We are here to serve. We are not here to impose.

But past that point, I think we feel that our strategic plan, which we will continue to update as we get into the early 1990's, is achievable, and we feel good about it.

Mr. ROYBAL. But your six year plan definitely includes improving service to the community?

Mr. FRANK. Absolutely. I have to again level with this committee. We could make any budget we wanted to, if we abandoned service. But that would be silly. So that is one of the reasons that the Price Waterhouse external measurement program, which we have absolutely no control over, is so important. It will prevent any of us or all of us from attempting to make budget at the expense of service because that measurement will be out there for the American public to see.

Mr. ROYBAL. Mr. Skeen?

Mr. SKEEN. Thank you, Mr. Chairman.

EXTERNAL MEASUREMENT BY PRICE WATERHOUSE

What is this Price Waterhouse study? Is it completed or it is in progress?

Mr. FRANK. We just let the contract.

Mr. SKEEN. When do you expect——

Mr. FRANK. We think by this summer the testing program will be complete. If it is, we will start reporting to the American people by the third calendar quarter. If it is not completely ready, we will start reporting by the fourth calendar quarter.

Mr. SKEEN. At whatever period you can.

Mr. FRANK. Well, we want to make sure it works properly because, it is a pretty complex system. They will hire 2,000 people to receive mail at their home or at their business, and those people will call up on a special telephone number and report when they receive the mail. It is a very complex——

Mr. SKEEN. Kind of a postal Nielson rating.

Mr. FRANK. Exactly.

Mr. SKEEN. Not a bad idea.

Mr. FRANK. I am glad to hear you say so. I think it is necessary. Some people say to me that we are providing an instrument for our critics to beat us over the head with, and I think there is a lot to that. But I think more important is to report to the American people what the service really is.

Mr. SKEEN. On the other hand, it may do just the reverse. We take the Postal Service so much for granted because it has been a very excellent system and it continues to be a very excellent system. I think it is reflected as we get to know how the Postal Service operates and we understand it better. You get a lot of kudos from this committee and any others that you go before. But the American public takes the Postal Service for granted. I would think that maybe it is a good operational mode to get into because if you have somebody that is neutral in this thing, the public will understand how good the system is.

The other terrible thing is the American public does not really understand the difference in rates. Just on a rate basis alone, you have one of the most economical systems anywhere in the entire world for the kind of service you provide.

Mr. FRANK. No question. I have a secret ambition to send the American people to Italy, because I know they will appreciate us more when they come back.

Mr. SKEEN. Even Australia would be good. What is it, $2 a stamp?

Mr. FRANK. It is clear that we are the lowest in the free world.

COSTS AND REVENUES OF INTERNATIONAL EXPRESS MAIL

Mr. SKEEN. I have one request I would like to make. On the overseas mailings, would you for the record give us your cost rates versus what you charge, to get some idea?

Mr. FRANK. Of course.

Mr. SKEEN. There has been some criticism about it and . . ..

Mr. FRANK. There has been some criticism on international express mail. Is that what you are referring to?

Mr. SKEEN. Yes.

Mr. FRANK. Certainly.

[The information follows:]

THE POSTMASTER GENERAL
Washington, DC 20260-0010

March 7, 1990

Honorable Joe Skeen
Subcommittee on Treasury--
Postal Service and General Government
Committee on Appropriations
House of Representatives
Washington, D.C. 20515-6028

Dear Congressman Skeen:

I very much enjoyed our discussion of numerous postal-related issues of mutual concern at the Postal Appropriations Subcommittee hearing on Thursday, February 22, and I wanted to get back to you fairly quickly on your questions concerning International Express Mail rates.

The Postal Service's International Express Mail rates are well above Express Mail cost levels and make a welcome contribution to the revenues of the Postal Service. Preliminary information for Fiscal Year 1989 indicates that the revenue from this mail was about $21 per piece and the cost was about $10 per piece.

Of course, the rate for the promotional Express Mail letters was much lower and we estimate that the revenue for these pieces averaged slightly over $10 per piece for the year. Our analysis indicated the average cost for this Express Letter Mail was $8.21 per piece.

If you need any further clarification or additional information, please contact my office or William T. Johnstone, Assistant Postmaster General, Government Relations Department on 268-3731.

Sincerely,

Anthony M. Frank

cc: Honorable Edward R. Roybal

Mr. SKEEN. Thank you very much. And I want to commend you for the work you do.

Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Akaka?

Mr. AKAKA. Thank you again, Mr. Chairman.

IMPACT OF LEGISLATION ON RATE INCREASE

Mr. Postmaster, we are anticipating, I guess in February of 1991 a raise in postal rates of 20 percent.

Mr. FRANK. Yes sir.

Mr. AKAKA. I think on January 25th you made a statement to the effect that the hike would help defray some of the expenses of the $800 million in deficit reduction cuts absorbed over 1988 and 1989. The President's 1991 budget targets the Postal Service for an additional $1.3 billion in revenue losses. Does that include the $800 million?

Mr. FRANK. No sir. Those were two one-time checks, actual checks we wrote to the U.S. Treasury. That is an additional $1.3 billion annually in additional expenses.

Mr. AKAKA. Then my question is on the 20 percent 1991 increase, will that cover the $1.3 billion or will you have to come back with another request for increase?

Mr. FRANK. No, it would not cover it. We would be back. We are required to break even, so clearly if we are putting a rate increase to break even and we get hit with an additional $1.3 billion in 1991 and Lord only knows what somebody will invent in 1992 and 1993, we would be back. I am going to fight that proposal as much as I can on the basis that we are off budget and we are meeting our obligations with respect to the federal budget.

PROPOSAL TO TIGHTEN ELIGIBILITY FOR REDUCED RATES

Mr. AKAKA. On the issue of tighter eligibility for preferred rates, and I think I am correct when I say the President agrees with you concerning the misuse of subsidized third-class, non-profit rates and second-class non-profit for mail containing advertising, your letter to Chairman Whitter indicates that the elimination of rate eligibility is the only way to alter current abuses. Would these restrictions be limited only to those rate classifications you mentioned, or will they eventually be expanded to other areas? I think the main reason for concern was because of the presence in those classes of advertising—both political advocacy and commercial.

Mr. FRANK. As has been said here several times today, we are here to carry out the wishes of the Congress with respect to subsidizing non-profit organizations. That is what we do. We have been asked what percent of that mail do we think has the abuse, if that is the right word, and I am not sure it is, of for profit corporations using a subsidized rate. Our answer is about five to six percent of the dollars involved could be reduced if we had crisper legislation.

DRUG INTERDICTION PROGRAM

Mr. AKAKA. My final question has to do with the drug program. I want to tell you that in Hawaii, on the Big Island, at one time we had problems with the Postal Service, not with the Postal Service

per se, but with marijuana being shipped through the Postal Service. You came out with a profile system that I think made a difference in curtailing the shipment of marijuana in the mail.

Mr. FRANK. I am glad to hear that.

Mr. AKAKA. My question to you, because of the experiences you have had, is whether you have any recommendations for the Congress in how to improve interdiction programs to eliminate these shipments.

Mr. FRANK. We will be glad to submit a letter. We believe that as best we know how, that it is less of a problem now than it was, and that a very tiny proportion of the mail contains banned substances. I would point out to you that we are not the only ones who handle packages in the United States. We handle about four to five percent of the packages in the United States so there are plenty of other people who deal with packages not sent through the U.S. mail, which is good and bad, I suppose. The good part is they are not subject to the restriction that prohibits us from opening the mail. Those packages can, I believe, under the Constitution be opened. That is something to consider.

The next big item, Congressman, is the mailing of fruit from Hawaii. That to me, looking ahead, will be a bigger item than this Operation Pali which has to do with the marijuana. But if we have some recommendations we will be glad to impart them to you.

[The information follows:]

CONTROL OF MAIL PACKAGES CONTAINING DRUGS

The Postal Inspection Service believes that additional legislation to aid in drug interdiction is not warranted at this time. Further, the Inspection Service believes it presently has adequate resources, equipment, and authority to deal with individuals who use the U.S. mail to transport illegal drugs. The war on drugs, in which the Inspection Service plays an important role, can only succeed through the efforts of all the agencies responsible for drug interdiction working together to combat this problem.

In regard to the mailing of marijuana from Hawaii to the 48 contiguous states, the Inspection Service has not found this to be a major problem.

Mr. AKAKA. Thank you very much. We appreciate what the Postal Service has done thus far.

Mr. FRANK. Thank you.

Mr. ROYBAL. Mr. Frank, I would like to thank you and your colleagues for your testimony. We have several questions from various members of the committee. We will submit them to you for your prompt answers.

REPORTS OF RECEIPT OF MULTIPLE SOCIAL SECURITY CHECKS

I would like to discuss very briefly with you a problem that includes the Postal Service and this is with regard to a problem that we are working on in another committee. That is the Subcommittee of Health and Long Term Care of the Aging Committee. It has identified a major national problem of elderly people that are being abused in illegal, unlicensed board and care homes. The problem is, that social security checks are sent there and the person is not there, and they are not forwarded.

We found that often the local mail carrier knows where these illegal homes are because of this, and that report seems not to be made to anyone. Do you think it might be advisable that mail car-

riers report to local health or aging departments the addresses of homes which receive multiple social security checks?

You can respond on the record.

Mr. FRANK. We will do that. As long as our people are not required to exercise judgment on legal versus illegal or qualifying versus non-qualifying, which puts a burden on our people that they should not and cannot absorb. We will respond to within the week on multiple deliveries.

[The information follows:]

REPORT ON RECEIPT OF MULTIPLE SOCIAL SECURITY CHECKS

Requiring letter carriers to disclose information concerning delivery points on their routes which receive numerous social security checks would raise several questions, each of which deserves careful consideration. Postal employees are generally forbidden to disclose information about the mail matter sent or received by any particular sender or addressee. The adverse impact on privacy of violating this rule is obvious.

Domestic Mail Manual (DMM) 153.14 contains specific instructions regarding the handling of checks issued by the Federal Government. These instructions allow delivery to be withheld and the check returned to the sender immediately, if it is known that the addressee:

a. Is deceased or both parties of a jointly addressed check are deceased.

b. Has moved without filing a change of address even through the new address may be known.

c. Has reenlisted in the military service.

d. Is under guardianship.

e. Is a widow who has remarried and the check is not addressed to her in her new name.

There is no current provision for reporting recipients of multiple social security checks.

DMM 115, Mail Security, affirms that "the Postal Service must preserve and protect the security of all mail in its custody from unauthorized opening, inspection, or reading of contents or covers, tampering, delaying, or other unauthorized acts. Any postal employee committing or allowing any of these unauthorized acts is subject to administrative discipline or criminal prosecution leading to fine, imprisonment, or both."

Section 115.2 of the DMM states that opening, reading, and searching of sealed mail is generally prohibited. In general, no person may open, read, search, or divulge the contents of mail sealed against inspection, even though such mail may be believed to contain criminal or otherwise nonmailable matter or evidence of the commission of a crime. However, an exception to this rule is a postal employee acting with the consent of the addressee or sender.

Again, in DMM 115.5, Disclosure of Information about Mail Sent or Received by Particular Senders or addressees, an exception is granted for employees to disclose such information at the request of the sender or addressee, or the authorized agent of either.

Finally, under DMM 115.5a, a letter carrier who suspects, based on the circumstances attending the delivery of mail that criminal activity is involved, should notify the Postal Inspection Service. In appropriate cases, the Inspection Service will then relay information to local authorities.

Moreover, and most important, a letter carrier's task is to deliver the mail. To give carriers additional duties not related to the purpose would be costly and could delay the prompt receipt of the mail.

Beyond the regulatory changes that would be required if letter carriers were to assist local agencies in the identification of possible fraud, there are legal, contractual, and procedural questions to be answered before such assistance could be granted. The Postal Service remains ready to explore this matter in greater detail.

FORWARDING MAIL AT NURSING HOMES

Mr. ROYBAL. Multiple deliveries, that is the problem.

The other is there are over 1.5 million Americans who at the present time live in nursing homes. While for most of these people

there are no problems, many nursing home residents do go back home or are moved to another facility. It is my understanding that U.S. postal regulations treat these elderly people the same way that they treat prison inmates. This is the accusation. They say that because the Postal Service does not forward their mail or honor change of address cards.

I am asking that you see to it that this regulation is changed and make the proper recommendations. First of all, find out what the facts are so that these older people can at least get their mail.

Mr. FRANK. We will be glad to do that. I would suggest to you without research, that there are some reasons to be very careful about authorizations to change address. One method of theft is to have the checks directed to somebody else with or without the knowledge of the recipient, so we do have to be careful about willy-nilly accepting a change-of-address. Now I am sure there are ways to solve that. One would be to have an authorized change of address person at a facility, maybe the director of the facility, and they or the recipient be the only ones who could do that.

But there are reasons for some of these protections. And inevitably when you protect somebody it hurts somebody else. We will be happy to study this.

Mr. ROYBAL. We have had testimony on this subject in the Committee on Aging. Then when I visit homes and nursing facilities throughout the country, it always seems to be coming up. So it is not something that just happens once in awhile.

Mr. FRANK. No.

Mr. ROYBAL. If you can look into that and give us a report we would appreciate it.

Mr. FRANK. We would be glad to do that.

[The information follows:]

FORWARDING OF MAIL FOR NURSING HOME RESIDENTS

Domestic Mail Manual 153.61 addresses delivery of mail to persons who reside in institutions. Mail is delivered to the institution authorities who, in turn, will deliver the mail to the addressee under the institution's rules and regulations. If the addressee is no longer at the address, the mail shall be redirected by the institution to his or her current address. If the fowarding address is unknown, the mail shall be returned to the post office.

Hotels, institutions, schools, and nursing homes generally have a large number of temporary residents. In locations such as these, the Postal Service usually delivers mail in bulk to the responsible agent or administrator of the hotel, school, etc. Delivery to the institution residents and forwarding of their mail are the responsibility of the receiving institution. Undeliverable pieces are returned to the Postal Service for appropriate handling.

Establishing for Postal Service forwarding responsibility for nursing homes could require the Postal Service to assume forwarding responsibility for other institutions of this nature.

If mail were to continue to be delivered in bulk, nursing homes would still be required to process the mail and return all undeliverable mail to the Post Office for forwarding and return. If carriers were required to handle each piece of mail before delivery, in order to withdraw forwardable mail, the cost would be extreme. That task would also be very difficult due to the residential turnover in those who live in these types of institutions.

Nonetheless, the Postal Service is concerned about reports of nursing home's failure to forward mail. If former nursing home residents are experiencing difficulty in having their mail forwarded by the nursing home, they should contact local postal officials. Such officials are in the best position to ensure that each institution handles properly the mail entrusted to it.

Mr. ROYBAL. Then I could also use that on the other committee.

Mr. SKEEN. Doing dual service.

Mr. ROYBAL. May I thank you, Mr. Frank. First of all I would like to join my colleagues in complimenting you for the work that you have done. I think it has been an excellent job. You can be sure this committee will continue to work with you on anything that you need.

Mr. FRANK. Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you very much. The meeting is adjourned.

[The report referred to, questions and answers for the record and justifications follow:]

AUDIT REPORT

COOPERATIVE MAILINGS REVIEW

FEBRUARY 1990

OFFICE OF AUDIT
CASE NO. 069-1016106-AR(2)

POSTAL INSPECTION SERVICE

RESTRICTED INFORMATION

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INTRODUCTION

This report is the result of a consolidation of individual special bulk rate cooperative mailings investigated during fiscal year 1989. The basis of our investigations was the increase in the number of questionable mailings entering the mailstream. To determine the extent of that activity, specific audit attention was given to cooperative mailings in all Regions.

Cooperative mailings exist where mailers enter into a joint venture to mail at a specific rate for which they have received authorization. Special bulk rate cooperative mailings are authorized only when each of the cooperating nonprofit organizations is individually approved to mail at the special bulk rates at the post office where the mailing is deposited. Cooperative mailings are not authorized when they are made in behalf of or produced for or by any organization not itself authorized to mail at the special bulk rate. Cooperative mailing ventures reviewed included those between authorized nonprofit groups (educational, religious, scientific, fraternal, etc.), and commercial organizations such as banks, insurance companies and travel agencies. Attachment 1 provides more detail regarding the specific activities.

While both special and regular bulk rates have increased, the most recent rate increase of April 3, 1988 resulted in the base rate of for-profit mailings increasing to 16.7 cents per piece as compared with the nonprofit rate of 8.4 cents. This rate differential gave a greater incentive for regular bulk rate mailers (for-profit) to enter into a cooperative mailing venture with special rate nonprofit mailers at the reduced rate. In FY 1989, bulk rate regular third-class mail declined by 2%, while third-class nonprofit volume increased by 5.4%.

The scope of our attention generally included the review of two prior years' mailing history of any questioned cooperative mailing venture. We examined PS Forms 3602 and 3602-PC, Statements of Mailing, and contracts or other related documents established between the nonprofit groups and commercial (for-profit) organizations. Interviews of Bulk Mail Acceptance Unit (BMAU) personnel, postmasters, and mailers or mailers' representatives were made as necessary.

We identified approximately 31 million pieces of mail from 150 nonprofit organizations which were unauthorized cooperative mailings. Investigative memorandums were issued to Postal management identifying revenue deficiencies amounting to approximately $2 million. As of the end of FY 1989, $245,000 had been collected and the remaining amount was in various stages of appeal. This $2 million dollars represents the amount of postage subsidized by both Congress, through appropriations for revenue forgone, and the Postal Service, due to reduced institutional cost allocation for the

special bulk rate mailings.

Many of the nonprofit organizations we reviewed entered into complex contracts or financial arrangements with a limited number of marketing organizations to advertise products or services of for-profit companies. In many of these contracts the advertisement and postage was paid for by the for-profit companies. (Therefore, the special bulk rates should not have been used as this violated the laws and regulations governing this particular rate class.)

Mailers are responsible for complying with laws and regulations governing domestic mail, as outlined in Section 111.3 of the Domestic Mail Manual (DMM). They are also required to certify on PS Forms 3602, 3602PC, or 3605 (Statements of Mailing) on presentation of mail to the Bulk Mail Acceptance Unit (BMAU) that:

--The mailer has complied with Section 623.5 DMM, pertaining to cooperative mailings;

--The matter being mailed is that of the mailer;

--The mailing is not cooperative with other organizations not entitled to special bulk mailing privileges, and

--The mailing has not been undertaken by the mailer on behalf of or produced for another person or organization that is not entitled to special bulk mailing privileges.

Mailers, therefore, should know whether their mailings meet the requirements for special bulk rates and are ultimately responsible for complying with the requirements.

Questions have been raised concerning the Postal Service's inability to stop unauthorized nonprofit mailings at the time of acceptance. The unauthorized cooperative mailings we revieved involved complicated contracts or financial arrangements known only to the nonprofit groups and for-profit companies entering into the joint ventures. Because of the necessity to reviev individual contracts, BMAU employees have no opportunity to stop these mailings at the acceptance unit. They can only rely on the good faith compliance with Postal regulations by the nonprofit organization. Therefore, monitoring of cooperative mailings at the BMAU for compliance with the special rate privileges is a near impossible task. We believe specialists at Rates and Classification Centers are in a better position to request and review contracts and financial arrangements to determine if mailers are complying with Postal policy. However, it is the mailer's responsibility to ensure compliance with existing regulations.

The Inspection Service has expended considerable resources to identify improper cooperative mailings which is an after-the-fact process for the most part. This has involved the issuance of Inspector General subpoenas to numerous marketing, for-profit, and nonprofit organizations to obtain contracts and mailing statements to determine which mailings were unauthorized. This is a time-consuming and costly process. Therefore, in this report, we are recommending changes that will afford the Postal Service an opportunity to more readily monitor these mailings on the front end which presumably will significantly reduce the number of unauthorized mailings and revenue deficiencies.

As additional information, Attachment 2 summarizes a previous Inspection Service report on "Special Bulk Rate Mail" dated February 26, 1986, and a June 1986 report to Congress by the Postal Rate Commission on preferred rates. Both reports have applicability to the cooperative mailing issue.

Attachment 3 is the Postmaster General's Report to Congress, dated February 1, 1990, concerning nonprofit third-class mail rates. This report, requested by the Appropriations Committees, included an accounting of the amount of appropriated funds used to support commercial advertising purposes, and to provide the Committees with specific recommendations. The Postmaster General proposed legislation to eliminate nonprofit eligibility for mailings which solicit the purchase of products or services offered by a for-profit company or organization.

CONCLUSION

We determined that a small group of commercial, for-profit organizations were soliciting and entering into joint ventures with a much larger group of nonprofit permit holders. This resulted in the payment of lover postage rates by the for-profit organization at the expense of Congress and the Postal Service. Where mailings were found in violation of the regulations, the commercial mailer was not assessed for the deficiency; but rather demand was made on the nonprofit permit holder who is simply obligated to pay the difference between the nonprofit and regular bulk rates. Deficiencies are usually calculated on the mailing activities for the past two years. The violator does not pay interest for the use of these funds, nor can penalties be assessed under the current regulations. We are uncertain as to whether current regulations allow the Postal Service to revoke nonprofit permits in the event the mailer does not pay the deficiency.

We believe the $2 million dollars identified during this audit is but a small percentage of abuses in this area. This is based on the number of investigations in progress at the end of the fiscal year and potential investigations to be undertaken. We continue to expend investigative efforts to identify additional instances where abusive use of the special rate privilege exists.

Joint ventures are usually covered by a contract or financial arrangement which either circumvents or misinterprets the intent of the regulations. The number and complexity of questionable mailing arrangements between nonprofit groups and for-profit companies make it impossible to identify improper cooperative mailings at the acceptance unit. Neither the characteristics of the mail piece, nor other information available to acceptance unit personnel suffice to identify improper mailings.

To correct current abuses, regulations need modification and mailings at the special bulk rate not be allowed where an agreement exists between a for-profit and nonprofit mailer. In addition, brochures advertising services and goods normally related to commercial businesses should be prohibited from being mailed at the special bulk rate regardless of who pays for the advertisement and postage. Special rate mailing authorization of those organizations violating the privilege should be revoked.

Management should also solicit Congress for statutory changes to Postal laws to allow for penalty and interest in addition to repayment of revenue deficiencies. In addition, if regulations cannot be strengthened to stop the large increases of unauthorized nonprofit mailings, the Postal Service should seek relief from Congress for their portion of losses from these mailings. The Postmaster General's February 1, 1990 report to Congress goes a long way toward addressing the existing problems.

DETAILED FINDINGS AND RECOMMENDATIONS

ASSESS DEFICIENCIES TO THE "FOR-PROFIT" MAILER

We found that a small group of commercial, for-profit organizations were soliciting and entering into joint ventures with a much larger group of special bulk rate mailers. This results in a financial gain for the for-profit organization, due to reduced postage costs, at the expense of the Postal Service and Congress.

Unless the for-profit groups make the actual mailings using their own mailing permits, there are no Postal Service regulations to assess revenue deficiencies against them.

For example, a bank sponsors an "affinity" credit card program for 45 nonprofit organizations and improperly uses the special bulk rate mailing privileges of the nonprofit organizations. Forty-five separate Investigative Memorandums must be written and potentially 45 different postmasters must issue a letter of demand to each of the nonprofit organizations. Each of the nonprofit organizations can appeal the decision to the Rates and Classification Centers. This entire process is both time-consuming and costly to the Postal Service.

RECOMMENDATION

We recommend the Assistant Postmaster General, Rates and Classification Department, in coordination with the General Counsel, make changes that would enable the Postal Service to assess revenue deficiencies against the for-profit groups.

MANAGEMENT'S RESPONSE

Assistant Postmaster General, Rates and Classification Department, responded that when a nonprofit organization has clearly lent the use of its special rate privilege to a for-profit company, the ability to assess a deficiency against the for-profit company would be a useful and practical addition to our regulatory authority. The Assistant Postmaster General, Rates and Classification Department, believes such cases are rare.

The bulk of the cooperative mailing cases pit the Postal Service against a nonprofit organization and its counsel who claim that the mailing is the organization's own mailing, not that of the for-profit company. If it is determined that a mailing is cooperative, our ruling will likely include language that the nonprofit organization "has in effect lent the use of its nonprofit privilege" because it has been determined that the real beneficiary of the mailing was the for-profit organization. At best, moreover, even successful assessment of a deficiency merely enables the Postal Service to collect postage which should have been paid in the first place.

Rather than diverting attention to methods for collecting a revenue deficiency after the fact, we believe it would be more profitable to concentrate on methods to prevent the deficiency. Accordingly, in the PMG's February 1, 1990, letter to Congressional Appropriations Committee, we have requested to work with the Committee's staff to develop legislation which makes the ventures ineligible for the special bulk mail rates.

The General Counsel noted that except in the rare case where a nonprofit organization serves as the mailing agent for a commercial firm (or vice versa), current regulations do not explicitly support the assessment of a deficiency against the for-profit participant in a cooperative mailing venture. It is not possible, however, to predict whether courts would sustain a change in the regulations which would provide for assessments against a party which was neither a permit holder nor a mailing agent. At best, such a change would simply broaden the scope of after-the-fact enforcement measures, not address the cooperative mailing problem at its source.

BASIS OF CONGRESSIONAL APPROPRIATIONS - "EQUAL MARK-UP"

Nonprofit groups making unauthorized cooperative mailings generally did not pay for postage or printing, nor control the contents of the mailings. The for-profit organizations, which sponsored the solicitations, paid for the postage, printing, and used the mailing lists of the nonprofit groups. At no point did the nonprofit organizations own the merchandise or service offered.

We revieved other mailings where the nonprofit groups paid for advertisements and postage, but the products and services again did not belong to the nonprofit groups.

These arrangements are subsidized by Congress through appropriations for revenue forgone and by the Postal Service because revenue foregone does not cover all institutional costs associated with regular third-class mail.

Institutional costs are unattributable costs to a specific class of mail. The process used to allocate these costs among classes of mail is to mark-up attributable costs by a percentage for that class of mail. Third-class institutional cost allocations are determined by marking up attributable costs by approximately 40 percent. Third-class nonprofit mailers entitled to special rates have a lover attributable cost because of characteristics identified for this mail. Based on in-office cost studies, it was statistically determined nonprofit mailing characteristics differed from

regular third-class. Nonprofit mail had a higher letter to flat ratio and destinating mail was more localized.

Based on these characteristics, third-class nonprofit mailers entitled to special bulk rates have a lover attributable cost. Therefore, because attributable costs are reduced for special bulk rate mail, the institutional cost allocation is less, based on the equal mark-up criteria. Prior to the enactment of the "equal mark-up" provision of the Budget Reconciliation Act of 1986, the Postal Service was reimbursed the difference between the regular and special bulk third-class rates.

We believe that the misinterpretation of the use of nonprofit mailing permits will continue until the regulations and statutes are changed. Therefore, we reiterate our position that nonprofit mailings should not be allowed where a commercial product is being sold or advertised, regardless of who pays the nonprofit postage. These mailings should be paid at the commercial bulk rate.

Additionally, with the growth of improper nonprofit mailings, we question whether the data used to arrive at the "equal mark-up" agreement in 1986 is still valid today.

RECOMMENDATION

We recommend the Assistant Postmaster General, Rates and Classification Department, modify current regulations and not allow mailings at the special bulk rate where an agreement exists between a nonprofit mailer and

for-profit business. In the event regulations cannot be strengthened, the USPS should seek an adjustment to the "equal mark-up" provisions to compensate the USPS for the full third-class mailing rates.

MANAGEMENT'S RESPONSE

Assistant Postmaster General, Rates and Classification Department, stated ideally we should have mail acceptance policies which ensure that questionable mailings are a burden to the nonprofit organization, not to the Postal Service.

We recognize, at least for the immediate future, that nonprofit organizations will continue to enter into agreements with for-profit companies designed to raise funds for the nonprofit organization's operations, and will continue to present mailings in furtherance of those programs for mailing at the nonprofit rates.

As a short-term remedy, a new requirement is being established for nonprofit organizations to submit an affidavit with special rate mailings certifying that the mailing is the organization's own, made at its expense, and is not an improper cooperative mailing. We are also developing educational brochures to guide the mailing public concerning cooperative mailings and the requirements for mailing at the special bulk rates.

In the long term, it may be necessary to request legislative action to eliminate abuses. In discussions with the Law Department, we have considered the possibility that nonprofit mailers should be required to mail at the regular bulk rates if the mail matter on its face solicits the purchase of products or services such as insurance, travel, or credit cards, offered by a commercial company or institution. We will explore this possibility.

The General Counsel agreed that the eligibility for taxpayer-subsidized rates should be based on a clear, precise, administrable, and understandable test. Only the Congress can change the present statutory eligibility criteria, which apply the special rates to "matter mailed in bulk" by eight generic varieties of "qualified nonprofit organization."

The General Counsel further noted there was no reason to anticipate that any revisions in the "equal mark-up" provisions of 39 U.S.C. §3626(i) are likely soon. It is possible, however, that the same budgetary considerations which led to the enactment of that provision could contribute to development of legislation which restricts the use of the nonprofit mailing privilege for commercial purposes. In the meantime, the "equal mark-up" provisions will continue to keep the revenues from subsidized rates lower than they otherwise would be, which necessarily increases the financial load carried by other mailers, adding still further to the incentives for abuse of nonprofit rates by for-profit ventures.

REVOCATION OF PERMITS AND ASSESSMENT OF PENALTIES

There is no deterrent if nonprofit mailers fail to comply with current Postal Service regulations. A mailer identified for failure to comply with postal regulations simply reimburses the Postal Service for the difference between the regular third-class rate and that paid. The Postal Service cannot assess interest or penalties for the loss of use of these funds. Additionally, a permit holder can continue mailing although funds are due the USPS from prior deficiencies.

There is no policy in the Domestic Mail Manual (DMM) regarding revocation of the special bulk rate privilege of a nonprofit organization due to improper use. Section 643.1 of the DMM calls for revocation of the special privilege when an organization does not qualify for the privilege at time of application, or the primary purpose of the organization changes subsequent to application approval.

Additionally, if a mailer fails to comply with postal policy, there is no provision to assess penalties or interest against a mailer.

RECOMMENDATION

We recommend the Assistant Postmaster General, Rates and Classification Department:

--revise Section 643.1 of the DMM to include a provision for revocation of the special rate privilege due to misuse of the permit.

--in coordination with the General Counsel, seek amendments to the Postal Reorganization Act to:

--assess interest and/or penalties against nonprofit mailers who fail to comply with postal regulations, in addition to the revenue deficiency;

--revoke permits for non-payment of revenue deficiencies.

MANAGEMENT'S RESPONSE

The Assistant Postmaster General, Rates and Classification Department, stated regulations providing for the revocation of nonprofit mailing privileges for "misuse" may be unforceable.

A more useful remedy would be a statutory change which provided that an unpaid deficiency will be cause for the Postal Service to divert any future deposits of funds to the payment of the deficiency. In other words, an offending mailer would be required to pay an outstanding deficiency before additional mail would be accepted.

The General Counsel stated that under existing regulations, the eligibility of an organization to mail at the nonprofit rates is determined by its "religious", "educational", "philanthropic", or other primary purpose. The task of making these determinations is frequently more suited to a convention of philosophers than to mail classification personnel. Typically, the determination is influenced by an IRS decision confirming nonprofit status under the Internal Revenue Code; only rarely are applications denied successfully. In the General Counsel's view, resort to the drawn-out administrative sanctions and appeal procedures of DMM SS643.1 to revoke the nonprofit permit of an organization which simply oves more postage to the Postal Service may have but marginal practical utility. For the minimal cost of filing articles of incorporation under state law, an organization whose permit has been revoked can become a new entity, entitled to a new permit, within days of revocation. However, revocation would be an effective me[redacted] in some cases, and Congress may be disposed to such a proposal.

BEST AVAILABLE COPY

A legal basis exists to modify our existing regulations to allow the application of postage deposit accounts to outstanding postage deficiencies, thereby requiring a mailer to pay the amount due on a previous mailing before any additional mail would be accepted. The Law Department has drafted, for consideration by senior management, proposed legislative amendments which would allow the collection of administrative penalties from mailers who intentionally or repeatedly underpay postage. Even this measure, however, fails to reach the fundamental problem with nonprofit rates, namely the necessity of after-the-fact administration through deficiency assessments.

INCOMPLETE RECORDS

Currently, there is no requirement for BMAU personnel to retain sample copies of third-class mailings. Therefore, it is difficult to conduct follow-up quality control reviews and investigations on questionable mailings once they have been processed.

Considerable time and effort was spent using alternative investigative methods to identify unauthorized cooperative mailings. Quality control reviews can only be limited to detecting questionable mailings still in the mail processing system. There is no way of conducting periodic reviews at BMAUs to question the validity of nonprofit mailings made at the special third-class bulk rate.

RECOMMENDATION

We recommend the Assistant Postmaster General, Rates and Classification Department, establish Postal Service policy to require a sample of third-class mailings be attached to the mailing statement and be maintained by the USPS for quality control reviews. Quality control reviews should be made periodically to determine mailings are complying with Postal policy.

MANAGEMENT'S RESPONSE

The Assistant Postmaster General, Rates and Classification Department, believed the recommendation would put a cumbersome responsibility on field office personnel. If other actions to reduce the number of cooperative mailings to those authorized in DMM SS623.52 succeed, this recommendation will not be necessary.

ATTACHMENTS

ATTACHMENT 1

AFFINITY CREDIT CARDS

Affinity credit cards or "cause cards" are VISA or Mastercard credit cards bearing the logo of sponsoring organizations and are issued by for-profit banks. Sponsoring organizations are typically college and university alumni associations, labor unions, philanthropic, fraternal, religious, and veterans' groups. Most of these organizations have received specific USPS authorization to mail eligible matter at the special bulk rates.

In an affinity credit card venture, the sponsoring nonprofit organization, the credit card-issuing bank, and the bank's marketing/advertising company all benefit from the venture. Nonprofit organizations make money on the credit card programs they sponsor. Sources of these profits include:

-- .5% of amount charged
-- Flat rate received for each card transaction (usually $.25)
-- Portion of annual fee
-- Flat rate for every new account opened ($1.00 to $5.00)
-- Percent of interest collected on unpaid balances
-- A guaranteed negotiated minimum income

Members of sponsoring nonprofit organizations often receive benefits from an affinity credit card program. These benefits include reduced interest rates, reduced or waived annual fees, merchandise discounts, and various travel enhancements.

A June 1987 survey conducted by the trade newspaper "American Banker", bankers rated affinity group marketing as likely to be the best technique for opening new credit card accounts in 1988. This was a dramatic shift from the prior year's survey which indicated direct mail solicitations were the most effective technique.

Credit card-issuing banks derive benefits from an affinity credit card program through increased credit card revenue. In a "Wall Street Journal" article (June 22, 1989), an officer of the largest affinity credit card-issuing bank in the nation stated their program was "enormously profitable." This bank handled more than 1,000 of the 3,000 programs in existence.

In other articles, additional benefits are obtained from affinity cards:

--Response rates to affinity credit card solicitations are substantially higher than response rates to direct mail solicitations. Direct mail response rates which are made at regular bulk rates are typically 1.5% to 2.5% of solicitations whereas responses to affinity credit card programs rate 3% to 7%.

--Increased market share in an increasingly-saturated credit card market.

--Banks develop relationships with members of upscale organizations considered likely to use credit cards often and make more expensive purchases. Banks officials believe affinity credit card holders will pay bills more promptly.

--A bank's image is enhanced because the bank makes donations to the sponsoring nonprofit organization based on the amount charged to the affinity credit cards.

Marketing/advertising companies contracted by banks to prepare and distribute solicitation materials also benefit from these programs. These companies are paid based on a negotiated contract fee with the credit card issuing bank, or they may receive .5% of the amount charged on affinity credit cards. In addition to the preparation and distribution of affinity credit card advertising materials, the marketing companies also identify new clients for the credit card-issuing bank.

The relationship between the credit card-issuing banks, the marketing/advertising companies, and the sponsoring nonprofit organizations are usually delineated in formal written contracts between these groups. The contracts normally cover the cost associated with the design, preparation, and distribution of solicitation material. In addition, postage payments compensation to the cooperating parties, risks of the venture, and managerial decisions are normally addressed in the contracts.

INSURANCE

Insurance administration companies contract directly with colleges and universities for the solicitation of group term alumni life insurance. The polices are underwritten by separate life insurance companies. All premiums paid by alumni for any companies' policies are placed in an "alumni trust" managed by the insurance administrator. The insurance administrators use a similar formula in distributing dividends to the colleges. Expenses such as state taxes, compensation (profit) to the insurance administrator, and the expenses of the insurance underwriting company are deducted from the total combined premiums for all colleges in the trust. The difference between the insurance premiums and expenses becomes net dividends which are distributed to the colleges.

The insurance administrators pay for the preparation, printing, and postage costs of all pieces mailed. This may include design of the actual mailing piece, preparation of the solicitation letter (subject to approval by the college), and subcontracting for the printing and mailing of the pieces. These costs are charged back to the colleges through a reduction in the college's dividends. Colleges do not pay for printing and postage charges from their own funds. Additionally, there appears to be no risk for the colleges if there is a net loss (poor response to solicitations) to the insurance administrator. One administrator stated if there was a net loss for a particular college, then all colleges in the trust would bear a collective expense, whereby the preparation and postage costs would be charged against the total combined insurance premiums.

TRAVEL

Our review disclosed for-profit travel agencies that have entered into cooperative mailing ventures with nonprofit organizations such as scientific and fraternal associations, numerous colleges and universities, and alumni groups. The travel promotions were generally recreational in nature and marketed as a service for the nonprofit organization. In most cases, the mailing materials (such as brochures and envelopes) were furnished free of charge by the travel agencies and the nonprofit organization was reimbursed for the postage incurred in mailing the items. Typically, the nonprofit organization received a number of free travel packages based on the amount of actual participants in a particular tour. Travel agents provided tour packages to nonprofit groups through complex arrangements, often with no written contracts.

Since travel agencies (as profit entities) bear the costs for the tour promotions and nonprofit groups receive benefits based on the actual number of tour packages sold, the nonprofit organization assumes no risk for the promotion. If no member signs up for a tour, the sponsoring nonprofit organization incurs no financial liability.

Our review disclosed several travel companies involved with nonprofit organizations that also use the regular bulk mail rates. A travel company in the Midvest provided the names of 60 nonprofit organizations mailing travel brochures at the special bulk rates. This company claimed it could provide the names of 60 additional nonprofit organizations mailing travel brochures at regular rates.

DIRECTORIES

Commercial alumni directory publishing companies have entered into cooperative mailing ventures with nonprofit organizations such as colleges and universities. The progression of mailings involved in alumni directory programs include initial mailings to gather biographical data, secondary mailings to solicit sales of directories, and follow-up mailings to stimulate interest in purchases if there has been no response from prior mailings. Mailing materials (such as questionnaires and envelopes) and postage for all mailings are provided by the publishing company.

The profit-making publishing company provides directory services for nonprofit groups through complex arrangements or contracts which include a sliding scale of proceeds, where the amount of profit depends on the amount of sales, with the percent of profit increasing as sales increase. Some smaller nonprofit groups (mainly colleges) have pools where expenses and proceeds are shared. Larger colleges generally enter into their own agreements with publishing companies.

The commercial alumni directory publishing company receives approximately 97% of all monies generated from these promotions. Because of its large share of the proceeds, the risk factor involved with poor sales of directories is absorbed by the publishing company. The nonprofit organization incurs no financial liability resulting from a failed promotion.

MERCHANDISE

An improper cooperative mailing venture involved the advertising of merchandise such as lamps, chairs, watches, and illustrations to university alumni through a nonprofit university alumni association. One profit-making company in the southeast made agreements with alumni associations for the purpose of selling merchandise to alumni. The alumni association received royalties or shared profits from the for-profit company based on the amount of merchandise sold to alumni.

The for-profit company paid for the printing and postage of the solicitations, and the nonprofit organization provided a mailing list and use of its authorization to mail at the special third-class rates. The nonprofit organization assumed no risk in these joint ventures and would not suffer any financial loss if the sale of merchandise was not successful.

ATTACHMENT 2

INSPECTION SERVICE AUDIT

The Inspection Service previously conducted audits relating to special bulk rate rulings. In our report dated February 1986, entitled "Special Bulk Rate Mail" we identified the following findings:

-- File Support and Ineligible Organizations

Requirements to maintain adequate file support with application to mail at special bulk third-class rates were not being met. Of the 223 authorized mailer files sampled, over 73 percent did not contain sufficient documentation to support all required characteristics of a qualified nonprofit organization. The primary documentation was not provided or maintained relating to nonprofit status and evidence of purpose.

-- Cooperative Mailings

For-profit organizations were creating relationships with nonprofit organizations to benefit from the reduced special bulk third-class postage rates through unauthorized cooperative mailings. These relationships were especially prevalent in the area of educational seminar organizations where losses of several million dollars in revenue to the Postal Service, and ultimately the taxpayers who subsidize the difference between the regular and special bulk rate.

have been documented. These relationships and the cooperative mailings had developed to the point where the situation was virtually undetectable by postal acceptance employees.

In the case of education seminar organizations, the criteria established to identify cooperative mailings did not provide sufficient guidance to readily detect an improper mailing at the special bulk rate. These mailings, on the surface, gave the appearance of being proper special rate mailings. Hovever, Inspection Service investigations of several educational seminar organizations mailing at special bulk rates did reveal large revenue deficiencies for cooperative mailings. These investigations were initiated by complaints of postal customers and not through detection by acceptance employees.

The for-profit organizations established relationships with nonprofit educational organizations who had been authorized to mail at the special bulk rates. The organizations satisfied postal regulations by establishing an "agency/client" relationship in which the nonprofit organization allegedly sponsors the for-profit organization and advertises the educational seminars at the special bulk rates. Investigations showed there was not a true arms-length relationship between firms, and tremendous savings are being achieved since postage costs represent a large percentage of total costs to educational seminar organizations.

POSTAL RATE COMMISSION REPORT

In June 1986, the Postal Rate Commission (PRC) reported to Congress its findings and recommendations in three areas prescribed for investigation by the Consolidated Omnibus Budget Reconciliation Act of 1985. One of these areas concerned the reduction of the postal revenue foregone appropriation by changing the eligibility for nonprofit mail which advertises products or services. The entire study centered on the revenue foregone appropriation, explaining that "...it does not fund Postal Service operating deficits. Its role is to allow eligible mailers lower postage rates than would otherwise be available to them by making up the resulting shortfall from the Treasury."

In discussing the determination of the appropriation amount, this study agreed the present system resulted in "overstating" revenue foregone and thereby inflating the amount Congress is asked to appropriate. The alternative preferred by this study was one which "measures the revenue foregone on each piece by applying the same proportionate contributions to the institutional (overhead) costs of the Postal Service that is made by regular-rate pieces." The PRC recommended the elimination of the revenue foregone appropriation, except for the small amount supporting free mail for the blind and one free categories associated with voting.

A portion of the report concerned "restricting eligibility for advertising or commercialized uses of nonprofit rate mail." The largest category in terms of usage and public subsidy was nonprofit third-class mail. The PRC developed a principle for judging whether advertising mail should receive a subsidy; "Whether the activity or thing advertised is substantially related, otherwise then just by raising funds, to the purpose of the nonprofit organization." The report suggested the advertising of travel and insurance be mailed at commercial postage rates. Further, "products and services in general would be judged by whether they were actually made or rendered by the organization's members or beneficiary group." The PRC study showed half of third-class nonprofit advertising would be eliminated by adopting its recommendations.

The PRC study addressed the issue of cooperative mailings, "where the nonprofit is brought into the enterprise for the sake of its mailing permit." The study stated a cooperative mailing of that kind had no connection with actually fulfilling the organization's purpose "except in the production of a certain amount of income... It is the activities actually carried on by the nonprofit which we expect to prompt the primary purpose, and in this case its 'activity' is simply facilitating a mailing. This is so, even when the service or event advertised is within the nonprofit's normal areas of activity." The PRC cited the existence of regulations barring cooperative mailings involving a mailer not eligible for preferred rates, but that the Postal Service found them difficult to administer and enforce.

The PRC recommended that, short of a complete ban of cooperative ventures, "any involvement by an ineligible (mailer) disqualifies the mailing for preferred rates." The study explained a nonprofit organization could not solicit members to sign up for a credit card using a subsidized mailing, since the credit card company was "a joint producer of that service." Additionally, it claimed when a travel or insurance plan was purchased through a cooperative mailing, it actually benefited the purchaser as any other consumer product or service. The PRC recommended the exclusion of all insurance and travel promotions from preferred rates.

THE POSTMASTER GENERAL
Washington, DC 20260-0010

February 1,1990

Dear Mr. Chairman:

The following report relating to use of nonprofit third-class mail rates is submitted in accordance with Conference Report 101-276 accompanying the 1990 Treasury, Postal Service, General Government Appropriations legislation (Public Law 101-136).

In the Conference Report on the Postal Service Appropriations Act, 1990, the Conferees expressed specific concern about "the abuse of the subsidized non-profit third-class rates by those who use these reduced rates to advertise articles, products, financial, insurance, travel, and other services which have no direct relation to the mission of the non-profit organization and which clearly advertise for commercial purposes." As a result of this concern, the Postal Service was asked to prepare a report for the Appropriations Committees which included an accounting of the amount of appropriated funds used to support commercial advertising purposes, and to provide the Committees with specific recommendations to eliminate this abusive practice.

The Postal Service does not, in the ordinary course of its operations, maintain statistics concerning the subject matter of nonprofit mailings. Accordingly, in order to address the Committees' request for specific dollar amounts, we referred to the Report To The Congress - Preferred Rate Study, June 18, 1986, by the Postal Rate Commission (PRC). In that report, the PRC defined two categories of advertising mailed by nonprofit organizations - that which should, and that which should not, be considered mailable at the preferred rates. These categories were designated Type A for eligible advertising, and Type B for ineligible advertising. As defined by the PRC, Type B advertisements include any advertisements for travel, insurance, and financial services, and other advertisements for services and products not produced by or directly related to the functions of the nonprofit organization. The PRC found that 13 percent of all

third-class preferred rate mail contained at least some advertising which fell into Type B. Factoring out those pieces which combined ads with non-commercial messages (for example, a display advertisement on a page of an organization's newsletter or publication), approximately six percent of third-class nonprofit mailings were found to consist predominantly of ineligible Type B advertising. See Exhibits I and II.

Using the six percent figure for the volume of ineligible advertising, and the total special third-class postage for Fiscal Year 1989, we estimate that the amount of the Revenue Forgone Appropriation devoted to the support of this advertising was $21,310,000. Exhibit III details the postage and appropriation amounts for Fiscal Years 1989, 1990, and 1991.

Exhibit IV shows that the total volume of nonprofit pieces increased 5.4 percent from FY 1988 to FY 1989, while the total pound weight increased 9.0 percent. Generally, weight increases in third-class mail that exceed volume growth indicate that additional items, such as brochures and the like, are being included in the pieces of mail. This holds true for both regular and special rate third-class mail. It is reasonable to suspect that some portion of this weight increase results from the inclusion of ineligible Type B advertising matter in otherwise acceptable third-class nonprofit mailpieces (for example, a group insurance solicitation included with a nonprofit organization's membership application). Therefore, the total exclusion of all Type B advertising might not result in a corresponding reduction in pieces and postage; the revenue forgone appropriation to the Postal Service, however, would be reduced if regular bulk rate postage were chargeable on pieces which contained non-permissible advertising enclosures.

Current statutes do not restrict the nature of advertising which may be mailed at the nonprofit rates, and the Postal Service accordingly does not attempt to determine whether the sale of products or services advertised by nonprofit organizations relates to the nonprofit purpose of the organization. The Postal Service, however, does attempt to enforce its regulations which prohibit mailings of material other than that of the authorized nonprofit organization, including "cooperative mailings" which are intended to benefit an individual or an organization not

eligible for the special bulk rates. Such cooperative mailings are often the product of a joint business venture between an authorized nonprofit organization and a commercial business, and typically are designed to sell products or services such as travel, insurance, and financial or credit card services.

Under current enforcement procedures, the Postal Service has no practical alternative but to accept mailings at the nonprofit rate which are tendered by an authorized nonprofit organization and appear on their face to be the mail of that organization. The vast majority of improper cooperative mailings sent at the special bulk third-class rates are thus able to gain entry into the mails because examination of the mailpiece at the time of acceptance is inadequate to disclose the business arrangements between nonprofit and for-profit organizations which make the mailing cooperative. Indeed, it would be unrealistic to expect clerks stationed at the mail acceptance platforms of post offices to interrupt mail processing functions in order to conduct an in-depth inquiry into the relationship between a nonprofit organization and the provider of such services as "affinity" credit-cards, insurance, and travel programs each time such a mailing arrives at the loading dock. As a result, the Postal Service is left to police the cooperative mailing restrictions after the mailing enters the postal system.

A recent Postal Inspection Service audit report has suggested the extent to which for-profit providers of services such as credit cards, travel programs, and group insurance plans have been able to exploit the special bulk third-class rates for commercial purposes. Applying the recognized elements of a joint business venture, such as shared management control, profits, and risk, the Inspectors reviewed evidence such as contracts, trust agreements, and other papers to determine who really was intended to benefit from the marketing of various commercial services at the special bulk third-class rates. The investigation, the results of which consolidate a number of individual cooperative mailing investigations during FY 1989, examined the mailing of 35 million special-rate pieces advertising insurance plans, credit cards, and travel programs, sent by 150 different nonprofit mailers under arrangements with a much smaller number of commercial enterprises. This investigation, of relatively limited scope, compared to the possible dimensions of this problem, has resulted to date in the assessment of revenue

deficiencies totaling approximately 2 million dollars. The Postal Service believes that this investigation, which covered only a small percentage of mailings which might be considered questionable under current regulations, demonstrates that it is crucial to take action in this area.

Recognizing it will not resolve the basic problems which attend after-the-fact enforcement of the rules in this area, the Postal Service plans to publish a proposed rule that will strengthen its ability to collect the unpaid revenue deficiencies incurred on such mailings by applying deposits intended for future mailings to the unpaid deficiency. We are also considering the feasibility of requiring a nonprofit organization to submit a certification statement each time it submits a mailing at the special bulk third-class rates. The certification will contain a notice that some materials are not mailable at the special bulk third-class rates, and that submission of a false statement may subject the organization to financial penalties.

Added to these measures, we plan improved distribution of educational materials such as brochures and precedent rulings. We ask Congress to support these actions. However, measures such as these are merely palliative, and cannot truly eliminate the practice of entering impermissible cooperative mailings into the mails at the special bulk third-class rates. Indeed, as the Inspection Service audit report makes clear, the typical commercial participant in cooperative mailing ventures is quite sophisticated, and already well aware of the regulations in this area. There is accordingly little reason to suppose that intensified educational efforts will effect a reduction in the volume of abuses reported.

If Congress renews its consideration of an appropriate legislative remedy, any resulting measure, as a practical matter, must go beyond requiring that the sale of products or services by a nonprofit organization relate to the purpose and function of the nonprofit organization. Apart from being highly subjective and difficult to enforce, such a measure would not eliminate the problems inherent in an after-the-fact enforcement method which necessarily must be applied today. Cooperative mailings would accordingly remain a reality, and the Postal Service would still face the task of searching out the motives

of mailers, and attempting to chase down and collect revenue deficiencies after the fact. Therefore, we believe that measures stronger than those we can effect ourselves are essential, and recommend that such measures should focus on eliminating completely nonprofit rate eligibility for mailings which solicit the purchase of products or services offered by a for-profit company or organization. We believe that legislation of this type offers a practical approach to the problem, and will put mailers on notice that certain types of advertisements are simply ineligible for the special bulk third-class rates.

We would be pleased to work with the Appropriations Committees on this approach.

Sincerely,

Anthony M. Frank

Anthony M. Frank

Honorable Robert C. Byrd
Chairman, Committee on
Appropriations
United States Senate
Washington, DC 20510-6025

cc: Honorable Dennis DeConcini

QUESTIONS FOR THE RECORD SUMBITTED BY CONGRESSMAN ALEXANDER

1. Mr. Alexander: General Frank, I want to express my appreciation to you and to the Service for working to improve service and reduce address confusion in Cherokee Village, Arkansas, in accordance with the provisions of House Report 101-170.

Your letter to Chairman Whitten, dated January 31, outlines progressive steps for taking care of some of the problems at Cherokee Village.

However, property owners in Cherokee Village indicate that they would prefer that both post office boxes in the Cherokee Village contract service facility and rural route addresses carry the Cherokee Village ZIP Code, 72525. Your report to the Committee proposes to give the rural routes a new ZIP Code, Cherokee Village 72529.

People in Cherokee Village who live on rural routes but hold boxes at the service facility report that sometimes mail is addressed to them at their street addresses, which are on the rural route. They are concerned that they may continue to experience some service problems if mail addressed to their rural route addresses has an incorrect ZIP Code, and suggest that the adoption of one ZIP Code -- Cherokee Village, 72525 - would alleviate any remaining confusion.

Would the Postal Service be willing to consider and act on this proposed change?

Mr. Frank: The use of two ZIP Codes for mail addressed to Cherokee Village, Arkansas was determined to be the easiest way to handle the mail processing and delivery problem which stems from both post office box and rural route customers using Cherokee Village, Arkansas as their delivery address. The contract postal unit provides post office box service to those customers of Cherokee Village who wish to have this type of service. There is no carrier service from this unit. Cherokee Village residents who receive home mail service are served by a carrier who works in the Hardy, Arkansas Post Office. If the post office box customers and the delivery customers both use the Cherokee Village ZIP Code (72525), mail for the customers served by the carrier located at the Hardy Post Office would be delayed while all mail is processed at Cherokee Village. In addition to the delay, this operation would increase costs.

Existing service to the Hardy and Cherokee Village areas continues to support our position that appropriate service is being maintained by the Hardy Post Office and there is no operational requirement for an independent post office at Cherokee Village.

2. **Mr. Alexander: I am concerned about reports of the removal of intermediate routes from small rural post offices to larger post offices in the state of Kentucky. From what I understand, this could be a back door attempt to close these small post offices. Relocation of intermediate routes reduces the hours and pay of postmasters, causing them to retire or quit and thereby opening the door to closing the post office. I further understand that this is precisely what happened at Decoy, Kentucky, as well as numerous other post offices.**

   a. Was it the Postal Service's intention to test this plan last year in Kentucky? Are there any plans to expand it to Arkansas or any other states, and if so, which states?

   b. How many post offices in Kentucky were targeted for the removal of intermediate routes? I understand it was 296.

   c. How many intermediate routes in Kentucky have already been moved between May 1, 1989 and today?

   Mr. Frank: The Louisville Division policy, shifting the casing responsibility for portions of certain rural routes from an intermediate office to the head-out office, represents a potential cost reduction. Additionally, rural costs could also be reduced by eliminating or minimizing a rural carriers time in the intermediate offices.

   By shifting this work function when a postmaster position becomes vacant, the responsibility of the position is reduced, and as a result, the level of the office should be reduced. This type of action would not adversely effect any incumbent postmaster's salary.

   The Louisville Division, which includes portions of Southern Indiana and excludes the Northeast part of Kentucky, was not designated as a test site for this concept. In fact, there is no national program to implement this idea nor are there any plans to expand the concept to other states in the future.

   Based on information provided by the Manager of Delivery Programs for the Louisville Division, 110 rural offices and 400 Highway Contract Route (HCR) offices were reviewed for conversion under this local procedure.

   A total of 63 rural offices were identified as potential candidates for conversion, and 41 offices were in fact converted between May 1, 1989 and March 1, 1990. This action affected 4 rural routes. Of the 400 HCR offices reviewed, a total of 161 offices were identified as candidates, and 58 were converted during the aforementioned time period. This action affected 65 HCR routes.

3. **Mr. Alexander: I am also concerned about reports of plans to realign the boundaries of the various areas in which the Postal Service provides next day delivery of First-Class Mail. I am particularly concerned that residents of some communities in Northeast Arkansas who are served by post offices located in the Memphis postal district may find themselves in a situation where they can expect next day service to West Tennessee or northern Mississippi but not to our state capital of Little Rock. Please provide a description of any plans the Service may have to realign these boundaries, including a detailed description of any changes planned for Arkansas.**

Mr. Frank: As we have conducted our review of the proposed delivery standards changes, we have been very conscious of ties into the state capitals. In the case of Little Rock only one adjustment was made. Fort Smith changed from overnight to two days from Little Rock, but in deference to the importance of mail flowing to the state capital, mail from Fort Smith to Little Rock will stay on the current overnight schedule. The attached map shows Little Rock's originating overnight standards after the realignment process. Please note that the northeast portion of the state (ZIP Code 723) was not previously an overnight delivery standard from Little Rock. While an upgrade was considered, it was not possible due to operational constraints.

However, the delivery standard from the 723 area to Little Rock has been and will continue to be overnight. As the second map portrays, the delivery standard for mail from offices in the 723 ZIP Code area will be overnight to the city of Little Rock even though it is processed in Memphis. In addition, the 723 ZIP Code area will receive overnight service to the Jonesboro, AR 724, Memphis, TN 380-381, McKenzie, TN 382, and Jackson, TN 383 areas, and the northwest portion of Mississippi (ZIP Code 386).

4. **Mr. Alexander: Please provide an update on USPS procurement of the wide area bar code reader developed at the University of Arkansas, including descriptions of what the reader can do for the Postal Service and what the procurement means in terms of financial benefit for the university.**

Mr. Frank: In September 1988 the U.S. Postal Service contracted with the University of Arkansas Office of Research and Sponsored Programs for development of advanced bar code reading techniques. The goal was to develop an automated equipment capability to detect a Postnet bar code on letter mail any place on the front of the envelope, particularly in the address block. The University's College of Engineering, at its Engineering Research Center, has succeeded in developing such a Wide Area Bar Code Reader. The early demonstration and testing of this new reader has been very

promising. As a result, the Postal Service has contracted with the University for five additional engineering models for advanced application analyses of the readers and to pursue further laboratory testing.

Based on the early success of the UARK-developed technique, the Postal Service has awarded a separate contract with the University for 40 prototype units with which to conduct live mail testing in Tampa, Florida, in cooperation with mailers in that area. In 1990 the Postal Service plans to contract on a competitive basis to manufacture 1,000 or more of these bar code readers, based on the development work accomplished by the University. The Postal Service will install these readers on its Bar Code Sorters currently in service across the country. The objective is to have, by 1992, the new readers in service everywhere, processing letter mail with the bar code placed wherever is most efficient for the mailer.

(The following is a synopsis of the University of Arkansas Procurement Contract.)

WIDE AREA BAR CODE READER
University of Arkansas
Contract #1

SEP 88	Contract awarded to explore and experiment with new concepts, develop a design, and build a laboratory prototype	$512K
	UARK's design and progress got early management attention	
FEB 89	Contract modified to add fabrication of five test prototypes	$241K
NOV 89	Contract modified to:	$612K

- o upgrade prototype to preproduction level and build five units
- o develop production technical date package
- o develop advanced WABCR with higher resolution and performance
- o feasibility analysis and report for; flats processing, analog processing, and address block processing

Delivery Schedule

Original prototype	September 1989	Remains at UARK
Five test prototypes	September 1989	Completed
Five prepro units	March 2, 1990	Completed
Data package	April 1, 1990	
Advanced WABCR prototype	July 30, 1990	
Feasibility Study Report	July 30, 1990	

Wide Area Bar Code Reader
Delivery Schedule
Contract #2

Deliverable

I. Wide Area Bar Code Reader (WABCR) Unit Test and Acceptance

A. First Article WABCR

1. First unit inspection, functional test and test deck demonstration at contractor's facilities.

2. Final inspection and acceptance, including delivery and acceptance of all applicable test documentation at destination.

B. Production Unit Test and Acceptance

Each unit shall be delivered FOB destination by the contractor to those locations to be identified by the Postal Service, and have completed final test and acceptance, in accordance with the following schedule:

Units 2 through 10	June 15, 1990
Units 11 through 20	June 29, 1990
Units 21 through 30	July 12, 1990
Units 31 through 40	July 26, 1990

II. Data and Documentation

A. Test Procedures

1. Preliminary WABCR test and acceptance procedures shall be submitted to the Contracting Officer for USPS approval.

2. Final WABCR test and acceptance procedures shall be submitted to the Contracting Officer for USPS approval.

B. Operational Procedures and Manuals

Preliminary

Final

C. Training Procedures and Manuals

1. Preliminary drafts shall be submitted to the Contracting Officer for review and comment no later than April 13, 1990.

2. Final version shall be submitted to the Contracting Officer for approval and acceptance no later than May 15, 1990

D. Unit Test Results

Printouts of each unit's test results shall be delivered with the applicable unit, and shall include, as a minimum, diagnostic and self-test results, results of the reading of each mail piece in the test deck at transport speeds of 118 inches per second (ips), 156 ips, and 180 ips, and that statistical date required to document proper functioning of the unit.

III. Software

Each unit delivered in accordance with the above shall include one copy of a complete set of operation and application software necessary to completely activate and operate each unit. Each set of software shall be serialized and identified with the hardware unit.

IV. Training

Training of maintenance and operations personnel shall be conducted by the contractor at the following USPS designated sites:

A. Tampa, Florida

B. Merrifield, Virginia

C. Norman, Oklahoma

5. **Mr. Alexander: Your budget submission indicates that the Service expects an operating loss of more than $3 billion in Fiscal Year 1991. Is my understanding correct that the legislative proposals concerning the Service that are included in President Bush's budget could, if enacted, add an additional $791 million to that operating loss?**

Mr. Frank: Fiscal Year 1991 reflects a $3.172 billion net loss before any impact from new rates or the 1990 labor contract. We made no specific assumptions regarding the 1991 rate increase or the new labor contract, but have assumed that the combined impact of additional revenue from new rates and new labor contract costs will be a reduction in the $3.172 billion loss to a break-even.

Enactment of the legislative proposals included in the President's Budget would increase the Fiscal Year 1991 loss by $791 million. The Administration's proposals would require that additional annuitant expenses of about $1.3 billion be recovered by raising rates higher than those requested by the Postal Service in its March 1990 filing. The $220 million revenue lost as a result of the proposed Government mail subclasses would be recovered by raising the rates of other mail categories. Since new rates were assumed to be effective for only one-half of Fiscal Year 1991, the net loss would be increased by half of the additional expenses and half of the lost Government mail revenue which are not recovered through new rates during the first half of Fiscal Year 1991. In Fiscal Year 1992, when the rates will be in effect for the entire year, the additional expenses and lost revenue will be fully offset and no additional loss will result. However, rates would have to be raised an additional 4 percent to maintain a break-even bottom line.

The impact of the Administration's proposals on the Postal Service's net income (loss) is summarized below:

	FY 1991 ($ in Millions)	FY 1992 ($ in Millions)
CSRS COLA Freeze	35	35
Dynamic Funding of CSRS COLA	(644)	(630)
72-86 Annuitant Health Benefits	(689)	(762)
Subtotal Increased Expense	(1,298)	(1,357)
Lower Government Mail Revenue	(220)	(220)
Lower Revenue Forgone Appropriations	(112)	(117)
Commercial Rates for Previously Reduced Rate Mail	112	117
Costs Previously Charged to Government Mail Now Charged to Other Mail Categories	110	220
Higher Rates to Offset Added Expense	649	1,357
Investment Income Lost	(32)	0
Subtotal Additional Revenue	507	1,357
Total Net Income (Loss)	(791)	0

6. **Mr. Alexander: According to the chart on the top half of page 35 of the "Annual Report of the Postmaster General -- Fiscal Year 1989," USPS came extremely close to fulfilling its statutory mandate to break even over the decade of the '80s. However, the operating surpluses built up in the first year or two of a rate cycle seem to be getting smaller and smaller, and the losses in the last years of a rate cycle seem to be getting bigger. What does this trend mean for the future in terms of rates charged and services provided? If the Service incurs a substantial loss of billions of dollars over an extended period of time, who picks up the tab?**

Mr. Frank: The Postal Service will incur a substantial loss over the course of the current rate cycle. A continuation of this trend would result in postal rates continuing to rise at a faster rate than prices in the general economy and an erosion of the Postal Service's market. Recognizing the severity of the present situation, the Postal Service has established an objective of bringing cumulative inflation in postal costs below inflation in the general economy over the period Fiscal Years 1990-1995. The objective calls for restraining future rate increases enough to offset the amount over inflation in the 1991 rate increase. Accomplishment of this objective will result in either fewer or smaller future rate increases and financial stability for the Postal Service.

As intended by Congress when the Postal Service was established, ratepayers will continue to pay for the cost of the postal services they receive.

7. **Mr. Alexander: Has the Postal Service started or planned any new initiatives designed to meet the needs and concerns of elderly customers? Please answer both in general terms and with specific regard to postal facility site selection.**

Mr. Frank: Two established programs designed in part to meet the needs of elderly citizens have been given renewed emphasis over the last fiscal year, Stamps-by-Mail and Stamps-by-Phone. Begun in 1974 as a service intended for shut-ins and the elderly, Stamps-by-Mail had expanded to approximately $85 million dollars in stamp sales last year. Stamps-by-Mail order forms are distributed at no charge by the Postal Service, and orders are returned postpaid to the customer. There is no service charge for ordering Stamps-by-Mail. Last year, we distributed 72 million order forms throughout the Unites States. Stamps-by-Mail is a popular program for those customers who cannot make the trip to the local post office.

Last October, we decided to make our experimental Stamps-by-Phone service permanent. Stamps-by-Phone is a service through which the public may order stamps over the telephone, using a credit card. A variety of stamps in sheet, coil, or booklet

form is available and there is no minimum order. There is a $3 service charge for Stamps-by-Phone service. Once again, this service benefits those who find it inconvenient to make a trip to the post office. Our research indicates that both businesses and individual citizens take advantage of this service. Over 20 percent of the individual users are over 55 years of age, according to our latest survey. As we have moved from an experimental to a permanent program, we are now working on means to ensure that the public, and particularly the elderly, are aware of this new service.

Little Rock, Arkansas 722
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Overnight areas shaded in blue

Arkansas SCF 723

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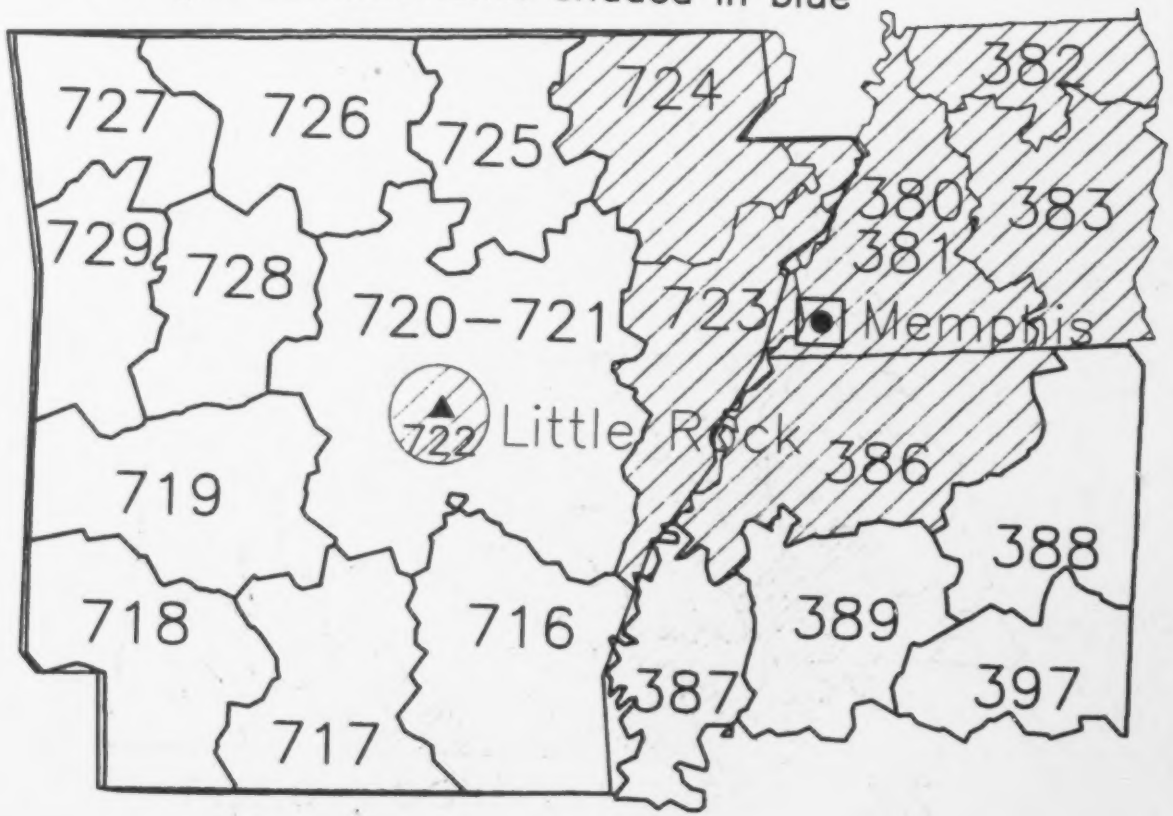

QUESTIONS FOR THE RECORD SUBMITTED BY CONGRESSMAN CONTE

1. **Mr. Conte: Over the past eight years or so, some have proposed repealing or significantly modifying the private express statues to dilute the Postal Service's monopoly in delivering the mail. What is your view on these proposals? Are there any serious plans under consideration by the Postal Service or the Administration?**

   Mr. Frank: I do not see anyone else eager to step forward to do the kind of public service job which the Postal Service performs. We have 40,000 facilities and 237,000 delivery routes covering every community in 50 states. The Postal Service delivers over 500 million pieces of mail six days a week. This system serves the American people well and I do not think that tinkering with the Private Express Statutes makes any sense. While I cannot speak for the Administration, I am not aware of any active proposal for changes in the Private Express Statutes.

2. **Mr. Conte: What role has the Postal Service taken in the war on drugs?**

   Mr. Frank: The Inspection Service's war against drugs consists of two separate programs. The Internal Crimes Narcotics (ICN) and Prohibited Mailings Narcotics (PMN) Programs.

   The ICN Program is designed to identify, infiltrate, and terminate the use, distribution, and sale of controlled substances within the Postal Service. Postal and contract employees engaged in these activities and non-employees supplying them are targeted as posing the most serious threat to the integrity and safety of our work force and to the day-to-day operations of the Postal Service.

   In Fiscal Year 1989, 451 individuals were arrested for sale or distribution of narcotics to postal employees or to others while employed by the Postal Service. This was a 28 percent increase in arrests from Fiscal Year 1988 and a 47 percent increase over the Fiscal Year 1987 arrests. In Fiscal Year 1989, 129,881 inspector work hours were dedicated to the Internal Crimes Narcotics Program.

   The PMN Program is designed to identify and interdict illicit narcotics sent through the U.S. Mails. Identification, arrest and conviction of individuals, both mailers and recipients, using the mail system to transport narcotics continues to grow. In Fiscal Year 1989, the Inspection Service arrested 880 individuals engaged in these activities, more than double (425) the number of arrests in Fiscal Year 1988 and nearly triple (307) the arrests in Fiscal Year 1987. The Inspection Service continues to take an aggressive approach in drug investigations with routine and scheduled interdictions at the divisional, regional and national levels throughout the year.

In Fiscal Year 1989, the Inspection Service dedicated 123,582 inspector work hours to drug interdictions. The intensified drug interdiction efforts of other law enforcement agencies have forced drug traffickers to seek an inexpensive, reliable and, most importantly, an impersonal means of transportation for their illegal substances--all of which they have found by using the mail. However, the mail is not believed to be a primary transportation means for the illegal drug trade. This conclusion is supported by combined intelligence from the law enforcement community.

3. **Mr. Conte: How much has the Postal Service allocated in Fiscal Year 1991 for anti-drug abuse efforts? How many people are assigned to this function? Are more resources needed?**

Mr. Frank: We anticipate that our Fiscal Year 1991 budget will allocate at least the 253,463 inspector hours allocated for anti-drug efforts in Fiscal Year 1989. We do not anticipate a need for anything other than a modest increase in resources for fighting the drug war in Fiscal Year 1991.

4. **Mr. Conte: Does the Postal Service need greater Federal authorities to effectively contribute to the war on drugs?**

Mr. Frank: No. Additional Federal authority is not the solution to stopping the transportation of drugs through the mail. Granting of additional authorities, for example, warrantless inspection, would only lessen the integrity, sanctity, and the security of the mails. The Postal Inspection Service can satisfactorily carry out its war on drugs through development and use of advanced technology, continued coordination with law enforcement agencies, and ongoing sophisticated interdiction operations.

5. **Mr. Conte: Are there any plans by the Postal Service or the Administration to initiate the closing of small post offices? Are any small post offices scheduled to be closed or consolidated in Fiscal Year 1991?**

Mr. Frank: The Postal Service has no special plan to close small post offices in Fiscal Year 1991. Following our established criteria and review process, some small post offices will close in Fiscal Year 1991 as postmasters retire and local community situations change. In Fiscal Year 1989, 154 post offices were closed out of a total of 29,083. During the same period, 30 additional community post offices were established through contract arrangements.

6. **Mr. Conte: To what extent and under what conditions does the Postal Reorganization Act gives you the authority to close small, rural post offices?**

Mr. Frank: Section 404(b) of title 39, United States Code, prescribes criteria and procedures to be used in considering the closure of post offices. The law requires that the Postal Service consider such factors as effect on the community served and on employees, as well as potential economic savings. It also requires the Postal Service to provide notice to the users of the office with an opportunity for them to provide comments. If a closing decision is made, any user who so chooses may appeal the decision to the Postal Rate Commission.

7. **Mr. Conte: In light of this authority, how do you comply with the provision included in this annual appropriations bill which provides as follows: "none of the funds provided in this Act shall be used to consolidate or close small rural post offices and other small post offices ... ?"**

Mr. Frank: The funds included in this appropriation are provided to cover free mail for the blind and certain preferred-rate mailings of nonprofit groups and others, and to reimburse the Department of Labor for workers' compensation payments for former employees of the Post Office Department. When the passage quoted was first added to the appropriation bill in 1984, the explanation was made that it was not intended to preclude the Postal Service from closing post offices "on a case-by-case basis, after careful consideration," but was intended to "send a clear message to postal management that the Congress does not want the Postal Service to engage in the wholesale closing of small post offices." 130 Cong. Rec. S 122987-88 (daily ed., October 3, 1984, remarks of Chairman Abdnor). In accord with the congressional intent, the Postal Service has been careful to limit post office closings to those individual cases in which a closing is found warranted under the statutory criteria after following the prescribed procedures.

8. **Mr. Conte: How does the OMB proposal to restrict the availability of revenue forgone subsidies compare to the Postal Service recommendation contained in the report submitted by the Postmaster General on February 1, 1990? What are the advantages of each proposal?**

Mr. Frank: The Administration's proposal to restrict revenue forgone appropriations covers a variety of topics, including subsidies for advertising in nonprofit third-class mailings. Our report was more limited and, instead, focused on the specific subject of advertising in third-class nonprofit mailings.

The major advantage of the Administration's proposal is that, if enforceable, it would permit Congress to determine in a much more detailed fashion, which particular forms of third-class nonprofit advertising should be subsidized and which should not.

As a practical matter, we will incur substantial expense and experience considerable administrative difficulty in attempting to implement the fine and often highly subjective distinctions contained in the Administration and other similar proposals. Unfortunately, the Postal Service can not provide the "scalpel" needed to permit such finely detailed surgery within the realm of third-class nonprofit advertising. Instead, we suggest that, if Congress desires to restrict advertising, then all products or services offered by for-profit organizations which are advertised as part of nonprofit mailings should be mailed at the for-profit rates. That would enable the Postal Service to be fair and consistent in its enforcement, as our guidelines would be unambiguous. In addition, it would assure that targeted appropriation reductions could actually be achieved.

9. **Mr. Conte: What are the enforcement problems associated with the OMB proposal? Will this cost extra money to monitor?**

Mr. Frank: In order to reduce the revenue forgone appropriation in fact, reduced-rate usage must be cut back in fact, not just on paper. The critical factor is how clear cut the eligibility lines are drawn. If new restrictions are expressed in terms of subjective criteria, the thousands of postal employees involved in enforcement will have a hard time policing the rules in a prompt and consistent manner, and expected savings may turn out to be vastly overstated.

The easiest type of restriction to enforce is one which clearly excludes a category of mailers from eligibility to send any mail at a subsidized rate. The Administration's proposal on fourth-class library-rate mail, excluding from this category all matter sent by publishers, is an example of this kind of restriction, which would be comparatively easy to apply. However, the proposal is worth only about $1 million in reduced subsidy.

The next easiest type of restriction to enforce is one which applies to individual mail pieces in terms of criteria that are already well understood in practice and easily applied. The Administration's proposal on second-class nonprofit mailing, excluding those pieces containing more than 10 percent advertising from receiving the preferred rates, meets this test because the concept of extent of advertising content is one already applied and well understood in mail classification practice.

None of the Administration's third-class nonprofit proposals, in their present forms, satisfy either of these criteria, because they rest upon administratively subjective and slippery concepts such as "relatedness," "school" versus non-school, and "political advocacy," which are not well defined or well understood in the postal community.

Alternatives for Third-Class

1. Advertising for products or services. This Administration proposal and related ones are extremely difficult to enforce because the controlling criterion is the relationship or "relatedness" between the product or service being advertised and the nonprofit organization. Citing one of the proposed standards, postal employees in a production-line working environment, would be expected to determine, on the basis of the advertisement alone, the origin of the products being advertised.

   As an example, a wildlife-protection organization advertises t-shirts featuring drawings of wildlife. The postal clerk, who must decide eligibility, has no way of knowing the production capabilities of the organization such as whether the organization has a silk-screening operation. This information is not likely to come from the advertisement itself. Furthermore, most large nonprofit organizations rely on mailing specialists such as printers to prepare and mail the advertisements. These agents are not likely to have the sufficient knowledge of the source of the products, and can provide no real help for the postal employee.

2. Eligibility of educational groups other than schools; political advocacy material. The Administration's school proposal does involve disqualifying certain groups from any eligibility for nonprofit rates, but the trouble is that what is or is not a "school" was a previously irrelevant matter in mail classification and would be subject to long and heated debate. With some 90,000 educational organization permits to review individually before their subsidies would be cut off, the administrative machinery and appeals would grind on for a year or more before very much money could be saved, so that for the budget year at least, actual savings would be much smaller than estimated. The political advocacy proposal is even more problematic, since mail acceptance clerks cannot be expected to deal with the ambiguities of what is or is not "political" and "advocacy" in a particular mailing any better then they can handle "relatedness."

In summary, while those proposals may have merit in theory, they were not developed with enforcement in mind. Conceivably, some of the more obviously inappropriate advertising or blatantly political materials would be restricted. However, enforcement of the many "grey" areas would not be consistent and many mailers would rightfully believe they are being treated unfairly when compared with other customers.

We are not offering an estimate of the additional cost of enforcement because we do not believe that additional funds would rectify the problems caused by such subjective guidelines.

10. **Mr. Conte: Under the OMB plan, does the elimination of subsidies for political advocacy include those subsidies used by political parties?**

Mr. Frank: While the Administration's proposal does not explicitly call for the repeal of nonprofit mailing subsidies for political parties, our understanding is that the prohibition of subsidies for political advocacy would result in their virtual elimination.

11. **Mr. Conte: From your experiences thus far as Postmaster General, how do you view the effectiveness of the Board of Governors? Do you have any recommendations for a different governing system, say one with a PMG appointed by the President for a fixed number of years, without a Board of Governors?**

Mr. Frank: The outside perspective and broad range of experience which our present Governors bring to the Postal Service have been very helpful to me and, I think, very beneficial to the Postal Service. I believe the Board structure works well, and I do not favor Presidential appointment of the Postmaster General. The Postal Service should be managed in an independent, businesslike way. The current management structure serves that need, while assuring proper attention to the public service aspects of the Postal Service's role as well. I see no advantage to changing the Board of Governors.

12. **Mr. Conte: How has the explosion of fax machines affected the Postal Service. What steps have you taken in response to this explosion?**

Mr. Frank: The current effect of facsimile technology on the Postal Service is immeasurable. Clearly, however, this state-of-the-art technology is having a significant impact on the way large corporations communicate. We believe that ultimately, it will significantly affect the way both small businesses and residential customers communicate.

We are faced with an "information now" generation. The American public looks toward efficient, convenient, and affordable technology which will respond to their urgent need for information. We are also aware that the American public (1) will choose the specific service to accommodate their needs from a number of options; and, (2) tends to use Facsimile transmission to satisfy the need for "information

now." Our research indicates that many users of facsimile machines follow up on their initial transmission by using Express Mail, Priority Mail or First-Class Mail to send the original document. However, realizing the growth of this technology and the acceptance of it by the American public, it is probable that facsimile transmitted documents soon will be accepted as originals by the court systems, realtors, etc.

Facsimile service will continue to grow at a rapid pace and ultimately will affect the Postal Service. We are taking an aggressive approach to this expected impact. Currently we are offering self-service, credit card-operated FAXMAIL by Hotelcopy, Inc. in 55 locations in the Northeast Region. As of January 16, a contract award was made to furnish and install 209 FAXMAIL terminals in the Central, Western, Southern and Eastern regions. Since that time, we have requested an additional 31 locations, including the Honolulu, Anchorage, and Carribean Divisions. Furthermore, we are being overwhelmed with a number of requests by other postal facilities, private sector companies, members of Congress, and government agencies, to either use this service to accommodate the needs of their respective customers or to provide this service in additional locations.

By offering FAXMAIL service the Postal Service (1) stresses that it is a serious, competitive retailer sensitive to the needs of the American public; (2) develops a new source of revenue for the Postal Service thus strengthening our financial position; (3) unlike other FAX services, provides confidentiality of transmitted documents which is unique and in keeping with our philosophy of the importance of the sanctity of the mail; and, (4) avoids costs in terms of a significant capital or expense outlay, and additional workhours.

Although current facsimile terminals are credit card-operated, we realize that a significant percentage of Americans do not have credit cards. Recognizing this, we have required the contractor to develop a mechanism to accept ATM cards. We are also working closely with the contractor to develop a special debit card which can be purchased in postal lobbies to use FAXMAIL service. The success of this facsimile program will be measured by our ability to educate, promote and focus the attention of the American public on this unique, convenient service.

13. **Mr. Conte: Do you see any developing technologies in the future that will give equally demanding challenges to the Postal Service?**

Mr. Frank: Facsimile is only one of several electronic messaging technologies that represent alternatives to traditional mail.

Electronic data interchange and electronic funds transfer could cause diversions of bills, invoices, payments, orders, notices, and data reports. Electronic mail can also be used for documents, correspondence, and international letters. These technologies will likely affect our business-to-business mail transactions. Household-to-business transactions, particularly payments, would be affected by growth in pay-by-phone services. Pre-authorized debits from bank accounts would also reduce the volume of mailed payments. Business-to-household mail transactions face a wide variety of possible challenges: videotex, electronic bill consolidation, and even ideas for issuing coupons at the point-of-sale could affect this market segment, although these technologies have not yet met the test of customer acceptance.

There is no doubt that these and other electronic technologies will, in the aggregate, gain an increasing share of the total communications market. However, because of the tremendous growth in communications, we believe that mail volumes will continue to grow at about 3 percent per year. With the earlier telegraph and telephone technologies, we have seen a layering effect of technology where a variety of alternative means of communication coexist.

14. **Mr. Conte: Does the Postal Service have any research or development programs that identify these challenges and propose responses?**

Mr. Frank: The Technology Resource Department recently studied electronic alternatives to traditional mail. The study segmented mail volume by type of transaction and judged the likelihood of diversion for each transaction type. Most of the transactions at risk represent mail destinating with businesses, particularly invoices, bills, and other information that could be electronically transmitted.

The study identified the barriers that are currently preventing substitution. Business practices and business information systems are often incompatible with electronic messaging, and there are human factors which favor traditional mail in many situations.

We are discussing potential responses to the challenges posed by electronic messaging. We will continue to monitor the growth of electronic communications and estimate the effect on the Postal Service. We are discussing ways to plan USPS responses on a transaction-by-transaction basis, as market conditions change. We will also consider possible revenue opportunities for the Postal Service.

QUESTIONS FOR THE RECORD SUBMITTED BY CONGRESSMAN EARLY

1. (a) **Mr. Early: The budget justification indicates that the administration is proposing to tighten eligibility requirements for preferred rates while continuing lower rates for most religious and charitable organizations. Are these recommendations similar to those contained in the report the Postal Service recently submitted to this Committee?**

Mr. Frank: No. The Administration's proposals cover a variety of areas within the general subject of revenue forgone appropriations. The Postal Service was asked to examine the specific topic of advertising in third-class nonprofit mail. Consequently, our comments encompass a much narrower area.

(b) **Mr. Early: How would the Postal Service implement such recommendations?**

Mr. Frank: Please see the response to question #3.

(c) **Mr. Early: What are the estimated savings, or increased revenues to the Postal Service from these proposed changes?**

Mr. Frank: If the Postal Service were able to fully implement the Administration's proposals, we estimate a savings of $112 million in Fiscal Year 1991 revenue forgone appropriations.

(d) **Mr. Early: Can you give us some idea of what it would cost to implement or carry out these changes?**

Mr. Frank: We cannot estimate the cost of implementing the changes because several of the proposed changes lead to guidelines which are so subjective. Even after substantial expenditures for training personnel and educating mailers with respect to the changes, the potential for inconsistent enforcement is great. Disputes resulting from disparate enforcement could lead to protracted administrative and legal appeals which are quite costly.

(e) **Mr. Early: Why is it necessary to tighten eligibility requirements for fourth-class library rates for publisher mailings to libraries or schools? What is the position of the USPS with respect to these proposals?**

Mr. Frank: The Postal Service's position is that the matter of who is provided subsidies in the form of reduced postage rates, including library rates, is a

matter of public policy which is more appropriately the domain of Congress. Our role is to offer Congress advice on the administrative feasibility of the proposals. In this instance, three of Administration's proposals would be extremely difficult to implement in a fair and consistent manner. We do note that the library rate proposal results in an appropriation savings of only $1 million.

(f) **Mr. Early: Is legislation necessary to implement all of these changes?**

Mr. Frank: The proposals would invoke new restrictions on the use of preferred rates outside of those provided in current law. The Postal Service can not, on its own, administratively implement the changes.

2. **Mr. Early: The justification indicates that OMB is proposing a lesser amount for revenue foregone than the service is requesting. Is this due to the changes being proposed for preferred rate mailings?**

Mr. Frank: Yes. The Administration's proposed reduction in the appropriation is predicated on the eligibility changes for subsidized rates. If the subsidy were reduced without accompanying restrictions in the use of the subsidy, the Postal Service would need to raise these rates to offset the loss of funds.

3. **Mr. Early: The justification mentions potential enforcement difficulties. What type of difficulties and can they be overcome?**

Mr. Frank: The Postal Service would be unable to implement most of Administration's proposals in a timely and consistent manner. In some instances, the proposals call for the enforcement of extremely subjective rules for the determination of eligibility for nonprofit rates. Our concerns with two of the specific proposals fall into this category.

First, the proposal relating to advertising in third-class nonprofit mail calls for an examination of the relationship between the nonprofit organization and the advertised product. That relationship can be interpreted in different ways. As an example, a calendar being advertised by a environmental organization might be considered directly related in that it contains pictures of unspoiled wilderness that the organization is trying to protect. Others might argue that the calendar is directly related to the calendar's printer who receives a large portion of the revenues from the sale.

We have the same concern about political advocacy. As an example, the previously mentioned environmental organization may mail out a tract on an environmental issue of public concern that Congress is facing. While the tract may viewed by some as an attempt to educate the public, others may view the tract as a thinly veiled attempt to sway public opinion and induce public reaction on a political issue.

The two examples illustrate the types of issues that would confront postal employees. To make matters more difficult, they must decide those issues in a production-line type of environment. In that environment, each delay in resolving one question means other mailings, waiting in line, are delayed also.

The next type of problem is our ability to implement the change in a timely manner. The proposal to redefine educational for purposes of nonprofit rate eligibility illustrates this. Currently, the Postal Service has over 90,000 educational third-class nonprofit permits. The review of 90,000 permits is a substantial undertaking. Moreover, the review would need to be done in a manner that ensured the all mailers were treated as consistently as possible and that due process was given. Otherwise, any actions to revoke eligibility on our part could be subject to legal challenge. The process could take over a year which would mean that the desired savings would not be achieved in the upcoming fiscal year.

4. **Mr. Early: Why is the Administration proposing a separate subclass for government mail?**

Mr. Frank: Implementation of the separate subclass proposal would result in lower rates, and therefore, lower postage bills for government agencies. As such, it reduces the federal deficit by reducing the administrative expenses of federal agencies. It must be noted that any lost postage revenues must be made up by rate increases for other customers if the Postal Service is to meet its statutory financial break-even requirement.

Can you give us some idea of the Administration's estimate of the savings to federal agencies?

The best available data indicates that the savings may be closer to $213 million rather than the $220 million estimated earlier.

The justification also indicates that rates and revenues for government mailers will be reduced to the point that the cost coverages for government mail equal that of other mail of the same category. What are we talking about here? Is the government now paying more?

One way of measuring the level of rates is through a concept termed "cost coverage." Cost coverage is simply the revenue for a product divided by its cost. If 15 cents is charged for an item costing 10 cents, its cost coverage is 150 percent (15 cents in revenue divided by 10 cents in cost.)

Historically, the Postal Service separated government agency data from data for the remaining customers in its statistical reports. When isolated from non-government mail data, the separate government mail revenue and cost data indicated that, as costs and revenues for mail classes were de-averaged, government mail was receiving an effective cost coverage that was higher than the cost coverage for the remaining mail. Under the OMB proposal, the rates for government mail would be reduced to a point where the cost coverages for government mail and all other mail are the same.

However, several items must be noted. First, the government pays the same rates as all other mailers, including large businesses and institutions whose mail has the same lower-cost characteristics as does government mail. Therefore, the government is not paying more than other similar customers. If government mail were provided separate, lower rates, these large businesses and institutions would have a legitimate argument for the same favorable rate treatment. In that instance, the only sources to make up the revenue loss would be from individuals and small businesses.

Second, postal rates are built on average costs. Therefore, one rate is charged items of varying costs. As an example, the 25-cent letter rate is based on all regular First-Class Mail. However, the costs of handling individual pieces can vary widely. An obvious example is that it costs less to send a letter across town as opposed to across the country. A less obvious example is that it costs less to handle a typewritten address that can be read by a machine as compared to a hand-addressed greeting card that is read by an individual and sorted by hand. When the lower cost items are removed from the calculation of the averages, the higher cost items form the basis for the rates paid by the remaining customers.

Thus, isolating government mail from all other mail will have the effect of increasing rates for other mailers for two reasons. One, the costs of the remaining mail on which the average rates are developed are higher, leading to higher rates. In addition, the new lower cost coverage on government mail volume would mean that some institutional (overhead) costs which were previously covered by the contribution from government mail revenue will have to be borne by other mailers.

As part of its rate proposal sent to the Postal Rate Commission on March 6, the Postal Service has offered additional ways to recognize and reward mailers for preparing mail with certain low-cost characteristics. Some of the mail

characteristics which are reflected in the proposed rates are the use of ZIP+4 Codes, use of barcodes, and size and distance characteristics. To the extent that the lower costs of government mail are due to mail characteristics recognized by the rate structure, government mail will realize lower rates.

5. **Mr. Early: The Administration also has a proposal to require the USPS to pay the cost of CSRS retirement annuitant COLAs on a dynamic basis. Would the employees' share of the cost be increased? or is it only the employers' share that would increase under this proposal?**

Would this bring the Postal Service in line with funding by the rest of the of the government?

What is the Postal Service position on this proposal?

Would the revenue accruing to the Treasury from this proposal be segregated, or would it be available to offset deficits?

Mr. FranK: Although similar proposals in prior years would have increased postal employees' share of the cost, the Administration's current proposition to require payment of Civil Service Retirement System (CSRS) annuitant cost-of-living allowances on a dynamic basis proposes increases only to the Postal Service employer's share of CSRS retirement contributions. This proposal to increase the Postal Service's 7 percent employer's share of CSRS retirement contributions essentially would require dynamic funding of the COLAs only by the Postal Service. Such a proposal is inconsistent with CSRS funding by the rest of the Government and since the Postal Service is a "captive" participant in the CSRS with the postal employees sharing equally in its benefits, any requirement to fund a disproportionate share of the costs is clearly unfair. Cash contributions in excess of current CSRS retirement obligations would be generated and since there would be no segregation of these funds, they would lose their identity as Postal Service funds and be available to offset Federal deficits.

Beginning with Fiscal Year 1990 the Postal Service is responsible for three components of CSRS funding: (1) 7 percent matching contribution, (2) unfunded liability payments to cover increases in basic pay, and (3) unfunded liability payments for annuitant COLAs. All CSRS costs are being funded by the Postal Service; some during an employee's service life, and some after retirement. Conceptually, the Administration's proposal does not require additional overall funding, but would require that CSRS COLAs be funded during the employee's service life instead of after retirement.

The legislation proposed in the 1991 President's Budget calls for the dynamic funding of COLAs by requiring the USPS to increase its contribution to the CSRS from the current 7 percent to 11.67 percent in 1991 and to 14 percent in 1994. This purportedly would result in combined Postal Service and employee contributions of 28 percent to the fund, which approximates full dynamic funding, according to Office of Personnel Management.

However, the Administration's calculations were based on the assumption that the Postal Service's CSRS unfunded liability payments equal 7 percent of CSRS basic pay. When added to the employees' contribution of 7 percent and the proposed employer's contribution of 14 percent, the full normal cost of 28 percent would be funded.

In fact, the Postal Service's CSRS unfunded liability payment in Fiscal Year 1989 was 11.27 percent of CSRS employees' basic pay. In addition, under the Omnibus Budget Reconciliation Act of 1989, the Postal Service began paying for annuitant COLAs in Fiscal Year 1990. We estimate that by Fiscal Year 1991, total Postal Service contributions to the Fund, including the employees' contributions, will total at least 27.04 percent. This percentage will continue to rise as the CSRS work force shrinks, additional unfunded liability layers are added, and the annuitant COLA payments increase. We estimate that, under current law, our contributions will equal or exceed the full funding level of 28 percent by Fiscal Year 1992.

We believe this issue of dynamic funding has already been addressed responsibly with the implementation of Federal Employee Retirement System (FERS). As a result of FERS, future CSRS liabilities will gradually diminish and eventually disappear without any change to the present approach to retirement funding.

6. **Mr. Early: With respect to the proposal concerning FEHB payments for postal annuitants, would there be any increase in cost to the employee or annuitant?**

I understand that the Administration is conducting a major review of the current Federal Employees Health Benefits Plan and that, in all likelihood, it will be recommending significant changes in or a major restructuring of the program. Do you expect this to result in any changes in the proposal before us?

Mr. Frank: No, we do not expect the Administration's proposal concerning postal annuitants to increase the cost borne by employees or annuitants. The Administration's proposal would require the Postal Service to pay the employer's share of health benefits for postal employees who retired between July 1, 1971, and September 30, 1986, and their survivors. The Postal Service currently pays this cost for employees who have retired after September 30, 1986, and their survivors.

In its "Views and Recommendation on Administration's Fiscal Year 1991 Budget Proposals" the House of Representatives Committee on Post Office and Civil Service stated that this proposal represents an issue which was addressed and settled in last year's budget reconciliation legislation after having been first addressed in the Consolidated Omnibus Budget Reconciliation Act of 1985. Under those Acts, the Postal Service pays the employer cost of health insurance for all retirees (and their survivors) who retire after September 30, 1986.

At this time no legislation has been introduced. Consequently, it is uncertain what changes might occur. If active employees are segregated from annuitants, as has been suggested, annuitant costs would probably increase.

QUESTIONS FOR THE RECORD SUBMITTED BY CONGRESSMAN LOWERY

1. Mr. Lowery: Mr. Frank, thank you for appearing here today and I want to commend you for your commitment to improving the performance of the U.S. Postal Service.

As you know, over the past four years, I have been in regular contact with the Postal Service regarding the pressing need for a Post Office facility for the Tierrasanta area of San Diego.

This community has been seeking a Post Office for over ten years. It is a rapidly growing city of roughly 30,000 residents that has been receiving service from a variety of temporary outlets including: a drug store window; a check cashing store; and currently, a portable trailer.

My office worked with the Postal Service real estate office in San Diego to locate the trailer currently in use. In addition, it is my understanding that the Postal Service is pursuing leased space in the Tierrasanta area to replace the trailer later this year. Art Pardo of the San Diego real estate office and Bill Weagley of your Government Relations staff have been very cooperative in this on-going effort.

Because of the importance of this issue to the Tierrasanta community, please provide for the record a status report on the effort to obtain leased space for a Post Office, as well as the time-table for a new Post Office facility for Tierrasanta in the Postal Service Five Year Plan.

Mr. Frank: Bids have been solicited for a retail unit of approximately 5,000 square feet. San Diego officials are evaluating those bids and expect to be able to make a selection shortly. At the present, the delivery unit is scheduled for site acquisition in Fiscal Year 1996 and design and construction in Fiscal Year 1997. The position in the five-year plan is based on priorities. We are advised that because of faster than projected population growth, this project could be advanced. This won't be known for certain until the next five-year plan is completed later this year.

2. Mr. Lowery: As you are well aware, the Postal Service is receiving a great deal of attention because of charges that poor working conditions and job-related stress have resulted in violence by current and former postal employees.

The San Diego Division has been named by some as a particularly stressful environment because of the rapid growth of the mail load in the area and pressure to meet productivity standards. At the same time, San Diego has an excellent reputation for efficiency and productivity. What steps is the Postal Service taking to address the problem of job-related stress, in San Diego and nationally, while maintaining a

commitment to improving productivity? Please address the issue of supervisor-employee relations and efforts to help employees adapt to the new automation machinery and processes.

Mr. Frank: While the growth in mail volume recently has slowed somewhat as a national average, San Diego and certain other high-growth areas have not experienced this slowdown. To meet the challenge of moving growing mountains of mail, the Postal Service constantly is seeking improved processing and delivery methods. Today's automated equipment, for example, can process 30,000 pieces of mail each hour, some ten times as many pieces as can be processed by mechanized machinery. Larger mail volumes force a need for larger processing space, and thus, higher capital funding requirements, which have been assigned to San Diego and other high-growth areas. Our greater capital investment commitment will enable the Division to keep pace with its increasing workload.

From a national perspective, the picture in San Diego is a healthy one. The Postal Service has attempted to measure, consider, and respond to employees needs, attitudes, and opinions. Our Employee Involvement and Quality of Work-life processes, which bring employees into the decision-making process on work-place issues, are among the largest and most advanced in the country. In San Diego, employee involvement teams have helped develop more efficient work methods. For example, joint team of carriers and supervisors has been looking for ways to use automation to its best advantage and assisting employees in adapting to these changes. The team visits delivery units to explain automation concepts to employees and to work with individual carriers to discuss the effects of automation on his or her route. Distribution clerks who perform manual sortation of mail are given the opportunity to voluntarily enter Flat Sorting Machine training in order to keep pace with the mechanization of distribution. Local management is seeking and placing employees whose duties are displaced by automation into alternative positions within the Service. Ongoing stress seminars are conducted twice a week by two on-site psychologists. While these seminars are provided to employees on a voluntary basis, supervisors are required to attend. In addition, the San Diego Division has worked hard to foster better communications with postal unions through its "People Together" program, which seeks to identify problems and possible solutions.

Other efforts such as the Labor-Management Plan were jointly developed with our national unions to foster better levels of communication, trust, and cooperation in postal facilities throughout the country. Over 300 post offices are participating in various programs either locally or nationally devised by the parties.

Locally, the San Diego Division has improved its communications efforts, conducted field visits with greater frequency, provided professional and psychological support, and emphasized the availability of our Employee Assistance Programs. We are prepared to do whatever is needed to ensure that these measures are effective in dealing with employee concerns.

WESTERN REGIONAL bulletin

PUBLISHED BY MARKETING & COMMUNICATIONS FEB. 1990 NO. 468

Cutting a "ribbon" of 20-cent Cable Car commemorative stamps to officially dedicate the San Francisco Rincon Center Post Office are (L-R) Alma Tina Hogan, Perini Land and Development Company; Robert Setrakian, Chairman, USPS Board of Governors; Tim Devault, Rincon Station manager; Michael McGreevy, Pacific Bell Directory VP; Dallas Keck, San Francisco Division GM/Postmaster.

In San Francisco

Rincon Post Office unveiled

The new San Francisco Rincon Center Post Office and Philatelic Center celebrated its grand opening with a January 25 ribbon-cutting.

The renovated post office is no ordinary post office. The 1940 building was designated as a California historical landmark by the National Register of Historic Places and is home of the largest WPA art project completed in the 1940s, a 40-foot mural by Anton Refregier that depicts the story of California history.

A former mail-processing center, the post office was no longer large enough for the volume of mail in the San Francisco Division. But no one wanted to tear down the beautiful building.

So the Post Office went into partnership with the private sector, leasing the 3.47 acre property to Perini Land and Development Company for a 65-year period.

The remodeled and renovated post office occupies 14,000 square feet of the new Rincon Center, a high-rise business and residential complex that was completed last year, and provides ten service windows and 2,700 post office boxes.

Its adjacent philatelic center offers a complete line of Postal Service stamps and stationery, as well as unique retail items relating to stamps and postal themes.

The Rincon Center also features an enclosed garden courtyard and waterfall, dozens of retail stores and restaurants, five floors of office space and twin apartment towers.

"The Rincon Center public/private sector partnership points the way to the future," said U. S. Postal Service Board of Governors Chairman Robert Setrakian, who was the guest speaker at the dedication ceremony. "It demonstrates the need to change with the times to meet changing customer needs. This innovative mixed-use development shows what great things we can accomplish when postal managers are willing to take risks on behalf of our customers."

Similar contracts with the private sector have been used for the Grand Central Station in New York City, the New Orleans Center near the Superdome and the old Washington, DC Post Office.

USPS will ask customers to measure service

For the first time in its history, the Postal Service is going to its customers to measure mail service to try and find out how good, or bad, it really is.

The Postal Service has awarded a three-year, $23.4 million contract to the accounting firm of Price Waterhouse to conduct independent measurements of First-Class Mail performance among 86 cities that now account for more than 60 percent of the nation's destinating First-Class Mail.

"Our efforts to improve and enhance mail service must begin with an accurate assessment of that service as our customers perceive it," says Postmaster General Anthony M. Frank. "This independent measurement system will produce additional data to help us make necessary improvements in order to provide prompt and consistent service our customers need and deserve."

The measurement process will begin when test mail pieces are recorded and deposited by Price Waterhouse into collection boxes and post offices in the 86 cities. Reporters hired by the firm will report daily the date mail pieces are received via a toll-free telephone number. Reports of national and regional performance will reflect average days to deliver, the percentage of mail delivered within overnight, second- and third-day standards, and the percentage of mail that fails to meet delivery standards.

"This is a bold step we are taking," says PMG Frank. "It will be the first time our service has been measured externally. But I think we owe this to the public."

The system is scheduled to be tested this spring and introduced nationwide in 1991.

San Diego "A" team plans for automation

San Diego believes automation is here to stay. In fact, San Diego Division employees think a lot more is coming, and they want to be ready when it gets here.

A special 12-member work team of carriers and supervisors is working in San Diego delivery units to continue preparing for automation.

Dubbed the "A" team, for automation, the group's task is to determine the best way to use bar code sorters in preparing mail for delivery.

"Letter-sorting machines (LSM) used to be the final sort to carriers," says Director of Operations Support Michael Dornbush. "Now, it's the bar code sorter. And in the future, bar code sorters will be used to sort directs or group mail by blockface. Either way, the savings is in reduced casing time."

Dornbush adds that the goal is to restore what we had 10 years ago. "Back then," he says, "carriers spent about a third of their day in the office. Today, we average about a half-day. Obviously, automation can help restore that balance."

To help accomplish that, Larry Elyea, Manager, Engineering; Technical Unit, assigned Operations Specialist Ray Diaz and Postmaster Dave Barthel to train an all-volunteer automation team to work with carriers.

Carrier "Nacho" Orduno (L) assists in orientation of San Diego's automation team. The task force will work with letter carriers to prepare for automation at the delivery units.

"We hope to get the jump on automation by preparing for the increased barcoded mail volume we will probably see in the near future," says Elyea. "Postmaster General Frank has promised to create better mailer incentives for barcoding. I think we should be ready when the time comes."

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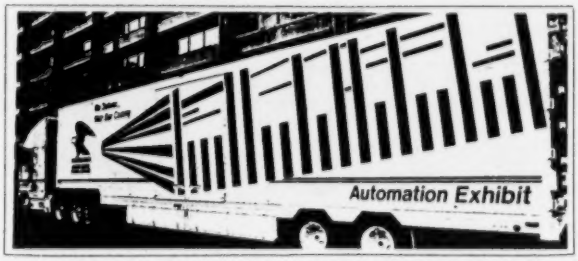
Automation truck to tour Western Region

The automation truck, a traveling Postal Service barcoding exhibit designed to give business mailers a look at how mail will be sorted in the '90s, will be touring the Western Region from March 19 through May 25.

The primary purpose of the automation truck is for use as a barcode sales tool. Regionally selected "sales hosts," who have received special training, will accompany the truck into the divisions to provide input and give presentations on the advantages of barcoding.

Inside the truck are several hands-on displays as well as a brief history of mail volume growth; a summary of our plans to sort mail using barcode technology; details of the benefits available to customers who prebarcode their mail; and the different methods mailers can use to apply barcodes.



A new traveling automation exhibit, housed in a 45-foot tractor trailer and designed to give business mailers a clear picture of how mail will be sorted in the 1990s, is coming soon to the Western Region.

The schedule for the Western Region is now being formulated. Divisions interested in the automation truck coming to their facilities should contact Dan Benjamin, regional coordinator, (PEN) 742-4733 or (415) 742-4733.

QUESTIONS FOR THE RECORD SUBMITTED BY CONGRESSMAN WOLF

1. **Mr. Wolf: This Committee has in recent years encouraged the U.S. Postal Service to provide child day care for employees at or near postal facilities. What has the Postal Service done in this area?**

Mr. Frank: A joint labor-management National Child Care Task Force was established (see b. below) and to date the Task Force has reviewed several organizations' approaches to child care, including that of the General Service Administration (GSA), and talked to postal managers and employees about their needs. The Task Force has scheduled visits to a number of proposed child care center sites over the next few months.

In 1988 the Task Force authorized the development of an on-site child care center at the Syracuse Management Sectional Center. In operation since September 1988, the Syracuse center is based on the model used by GSA in establishing child care centers in GSA-owned buildings. The Task Force is now taking steps to conduct a study of the Syracuse center to measure its effect on postal employees' productivity, morale, and leave usage.

Mr. Wolf: Please provide to the Committee a detailed description of actions taken to date, including:

a. **The name and location of postal installations that have more than 500 employees.**

Mr. Frank: The requested information is attached.

b. **The steps that the Postal Service has taken to identify space suitable for child day care facilities in existing or planned installations.**

Mr. Frank: The National Child Care Task Force was established to study and report on the need, feasibility, desirability, and cost of providing on-site and off-site child care at existing and future postal facilities. The Task Force is comprised of representatives of the U.S. Postal Service, the American Postal Workers Union, AFL-CIO, and the National Association of Letter Carriers, AFL-CIO.

Employees who are interested in establishing child care centers at their site form committees to investigate the idea. They then submit a proposal to the National Child Care Task Force. Once the proposal has been approved, the amount of space allocated for a center is determined so that it complies with state law for the number of children expected to be enrolled.

c. **What steps have been taken to examine the suitability of the Merrifield and proposed Dulles postal installations for child day care facilities.**

Mr. Frank: To date, the National Child Care Task Force has not received a proposal to establish child care centers in the Northern Virginia Division.

LISTING OF POST OFFICES WITH 500 OR MORE CAREER EMPLOYEES
AS OF (PP05/90)
PROGRAM NAME: GFH6862

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
01-0780	BIRMINGHAM	AL	2,102
01-4240	HUNTSVILLE	AL	531
01-5600	MOBILE	AL	785
01-5630	MONTGOMERY	AL	818
02-0312	ANCHORAGE	AK	1,123
03-5217	MESA	AZ	581
03-6364	PHOENIX	AZ	4,695
03-8880	TUCSON	AZ	1,592
04-5130	LITTLE ROCK	AR	1,399
05-0108	ALHAMBRA	CA	1,167
05-0462	BAKERSFIELD	CA	850
05-2886	FRESNO	CA	1,149
05-3684	INGLEWOOD	CA	1,599
05-4482	LONG BEACH	CA	2,136
05-4530	LOS ANGELES	CA	10,950
05-5440	PETALUMA	CA	654
05-5508	OAKLAND	CA	4,229
05-5862	PASADENA	CA	1,160
05-6678	SACRAMENTO	CA	3,015
05-6744	SAN BERNARDINO	CA	1,244
05-6768	SAN DIEGO	CA	4,032
05-6785	RICHMOND	CA	773
05-6786	SAN FRANCISCO	CA	7,408
05-6834	SAN JOSE	CA	2,895
05-6936	SANTA ANA	CA	2,282
05-6942	SANTA BARBARA	CA	786

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
05-7524	STOCKTON	CA	988
05-8100	VAN NUYS	CA	2,215
07-1818	COLORADO SPRINGS	CO	1,198
07-2357	DENVER	CO	762
07-2358	DENVER	CO	4,859
08-0578	BRIDGEPORT	CT	801
08-3366	HARTFORD	CT	2,516
08-4726	NEW HAVEN	CT	1,905
08-7718	STAMFORD	CT	915
09-6820	WILMINGTON	DE	1,254
10-5000	WASHINGTON	DC	5,945
11-1665	CLEARWATER	FL	519
11-3030	FORT LAUDERDALE	FL	2,569
11-3075	FT MYERS	FL	798
11-3990	HOLLYWOOD	FL	660
11-4380	JACKSONVILLE	FL	2,754
11-4381	JACKSONVILLE	FL	672
11-4920	LAKELAND	FL	543
11-5850	MIAMI	FL	6,038
11-6915	ORLANDO	FL	2,453
11-7410	PENSACOLA	FL	689
11-7635	POMPANO BEACH	FL	629
11-8250	SAINT PETERSBURG	FL	1,316
11-8895	TALLAHASSEE	FL	567
11-8925	TAMPA	FL	3,566
11-9465	WEST PALM BEACH	FL	1,942

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
12-0439	ATLANTA	GA	814
12-0440	ATLANTA	GA	6,257
12-5588	MARIETTA	GA	564
12-7810	SAVANNAH	GA	586
14-2400	HONOLULU	HI	1,717
16-0046	AMF O'HARE	IL	774
16-1541	FOREST PARK	IL	1,197
16-1542	CHICAGO	IL	14,200
16-1543	NO SUBURBAN FACILITY	IL	3,328
16-1544	SO SUBURBAN FACILITY	IL	1,495
16-6180	PEORIA	IL	626
16-7416	SPRINGFIELD	IL	696
17-2651	EVANSVILLE	IN	571
17-2915	FORT WAYNE	IN	787
17-3168	GARY	IN	758
17-4037	INDIANAPOLIS	IN	3,980
17-8195	SOUTH BEND	IN	619
18-1503	CEDAR RAPIDS	IA	533
18-2412	DES MOINES	IA	1,970
19-8932	TOPEKA	KS	636
19-9713	WICHITA	KS	1,419
20-4600	LEXINGTON	KY	820
20-4788	LOUISVILLE	KY	2,404
21-0624	BATON ROUGE	LA	1,070
21-6565	NEW ORLEANS	LA	2,920
21-7956	SHREVEPORT	LA	788

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
22-6900	PORTLAND	ME	1,144
23-0378	BALTIMORE	MD	5,506
23-7480	CAPITOL HEIGHTS	MD	2,997
23-8478	SILVER SPRING	MD	582
23-8750	SUBURB MD FAC	MD	1,242
24-0799	BOSTON	MA	10,390
24-4600	MIDDLESEX ESSEX	MA	1,044
24-7820	SPRINGFIELD	MA	2,931
25-2490	DETROIT	MI	5,694
25-3290	FLINT	MI	860
25-4910	KALAMAZOO	MI	802
25-5270	LANSING	MI	949
25-8230	ROYAL OAK	MI	1,411
26-6360	MINNEAPOLIS	MN	4,678
26-6361	EAGAN	MN	601
26-8360	SAINT PAUL	MN	2,938
27-3783	JACKSON	MS	1,054
28-4218	KANSAS CITY	MO	3,517
28-7140	SAINT LOUIS	MO	5,911
28-7141	HAZELWOOD	MO	636
28-7530	SPRINGFIELD	MO	662
30-5160	LINCOLN	NE	682
30-6645	OMAHA	NE	2,176
31-4880	LAS VEGAS	NV	1,565
31-7280	RENO	NV	757
32-4800	MANCHESTER	NH	1,268

LISTING OF POST OFFICES WITH 500 OR MORE CAREER EMPLOYEES
AS OF (PP05/90)
PROGRAM NAME: GFH6862

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
33-3225	HACKENSACK	NJ	942
33-3869	JERSEY CITY	NJ	3,363
33-5670	NEWARK	NJ	3,050
33-5685	NEW BRUNSWICK	NJ	1,083
33-6420	PATERSON	NJ	1,006
33-7095	RED BANK	NJ	555
33-7928	SOUTH JERSEY	NJ	1,601
33-8550	TRENTON	NJ	1,369
34-0147	ALBUQUERQUE	NM	1,616
35-0060	ALBANY	NY	1,562
35-0185	JFK NEW YORK	NY	2,291
35-0982	BRONX	NY	2,808
35-0995	BROOKLYN	NY	5,447
35-1025	BUFFALO	NY	3,086
35-2895	FLUSHING	NY	3,170
35-3775	HICKSVILLE	NY	2,757
35-4170	JAMAICA	NY	1,463
35-5585	MOUNT VERNON	NY	1,495
35-5825	NEW YORK	NY	20,863
35-6800	POUGHKEEPSIE	NY	729
35-7105	ROCHESTER	NY	2,174
35-8170	STATEN ISLAND	NY	840
35-8360	SYRACUSE	NY	1,324
35-9137	WESTERN NASSAU	NY	895
35-9545	YONKERS	NY	585
36-1392	CHARLOTTE	NC	2,089

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
36-2680	FAYETTEVILLE	NC	730
36-3192	GREENBORO	NC	1,436
36-3193	GREENSBORO	NC	563
36-6352	RALEIGH	NC	1,222
38-0084	AKRON	OH	1,182
38-1323	CANTON	OH	716
38-1603	CINCINNATI	OH	4,069
38-1604	CINCINNATI	OH	903
38-1666	CLEVELAND	OH	6,443
38-1792	COLUMBUS	OH	3,277
38-2093	DAYTON	OH	1,800
38-8260	TOLEDO	OH	1,360
38-9219	YOUNGSTOWN	OH	798
39-6138	OKLAHOMA CITY	OK	2,404
39-8349	TULSA	OK	1,710
40-2848	EUGENE	OR	613
40-6784	PORTLAND	OR	3,155
41-1626	SOUTHEASTERN	PA	1,067
41-2544	ERIE	PA	566
41-3484	HARRISBURG	PA	1,414
41-4408	LANCASTER	PA	745
41-4582	LEHIGH VALLEY	PA	627
41-6544	PHILADELPHIA	PA	8,377
41-6545	PHILADELPHIA	PA	1,382
41-6607	PITTSBURGH	PA	845
41-6608	PITTSBURGH	PA	5,024

LISTING OF POST OFFICES WITH 500 OR MORE CAREER EMPLOYEES
AS OF (PP05/90)
PROGRAM NAME: GFH6862

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
41-6928	READING	PA	608
41-7540	SCRANTON	PA	547
42-8460	SAN JUAN	PR	1,843
43-7140	PROVIDENCE	RI	2,415
45-1480	CHARLESTON	SC	616
45-1800	COLUMBIA	SC	1,239
45-3620	GREENVILLE	SC	721
47-1560	CHATTANOOGA	TN	780
47-4632	KNOXVILLE	TN	1,047
47-5664	MEMPHIS	TN	2,890
47-5665	MEMPHIS	TN	933
47-6144	NASHVILLE	TN	2,122
48-0225	AMARILLO	TX	558
48-0335	ARLINGTON	TX	581
48-0420	AUSTIN	TX	2,143
48-2030	CORPUS CHRISTI	TX	745
48-2269	DALLAS	TX	1,465
48-2270	DALLAS	TX	5,928
48-2845	EL PASO	TX	1,128
48-3220	FT WORTH	TX	2,868
48-4145	HOUSTON	TX	8,107
48-5395	LUBBOCK	TX	629
48-7980	SAN ANTONIO	TX	3,222
51-0114	ALEXANDRIA	VA	638
51-0306	ARLINGTON	VA	502
51-6522	NORFOLK	VA	1,607

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
51-6540	NORTHERN VIRGINIA	VA	2,546
51-7716	ROANOKE	VA	832
54-7616	SEATTLE	WA	3,788
54-8050	SPOKANE	WA	937
54-8330	TACOMA	WA	1,072
55-1458	CHARLESTON	WV	789
56-3400	GREEN BAY	WI	523
56-5480	MILWAUKEE	WI	3,914

LISTING OF POST OFFICES WITH 500 OR MORE CAREER EMPLOYEES
AS OF (PP05/90)
PROGRAM NAME: GFH6862

FINANCE NUMBER	WORK CITY	WORK STATE	CAREER TOTAL
			403,428

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

March 7, 1990

Honorable Thomas S. Foley
Speaker of the House
of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed for the consideration of Congress is a legislative proposal entitled the "Postage Rate Reform Act of 1990." As proposed in the President's FY 1991 Budget, this proposal would terminate abuses in the reduced postage rate program and establish postage rates for Government mail that more accurately reflect processing costs. The enactment of these reforms would result in savings of $332 million in FY 1991.

Specifically, the proposal would terminate abuses of the reduced postage rate program for charitable and benevolent organizations. Such abuses include the promotion of commercial activities through taxpayer-subsidized mailings. The proposed reforms, which were recommended to Congress by the Postal Rate Commission, would reduce the taxpayer subsidy of postage rates by $112 million in FY 1991. These reforms would terminate eligibility for special reduced mail rates for:

-- second class nonprofit mail with an advertising content of 10 percent or more;

-- third class nonprofit mail containing commercial advertising;

-- fourth class mail sent by profit-making publishers;

-- "educational" mail sent by organizations which do not maintain a teacher/student relationship; and

-- political advocacy mail.

The proposal would also establish a separate cost-based Government mail subclass. Government mail is relatively inexpensive for the Postal Service to collect, sort, and deliver. This proposal would recognize the Government's efficiency in preparing mail, and reduce the Federal Government's postage costs, saving $220 million per year.

A further explanation of this legislation is contained in the enclosed section-by-section analysis.

The prompt and favorable consideration of this proposal by Congress would be appreciated.

Respectfully yours,

Richard G. Darman
Director

Enclosures

IDENTICAL LETTER SENT TO THE PRESIDENT OF THE SENATE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

March 7, 1990

Honorable Dan Quayle
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

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Respectfully yours,

Richard G. Darman
Director

Enclosures

IDENTICAL LETTER SENT TO THE SPEAKER OF THE HOUSE

A BILL

To amend title 39, United States Code, to curb abuses of postage subsidies, to provide more equitable rates for Government mail, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Postage Rate Reform Act of 1990".

SEC. 2. RESTRICTION OF POSTAGE SUBSIDIES.

(a) COMMERCIAL SERVICES; POLITICAL ADVOCACY; ADVERTISING; EDUCATIONAL ORGANIZATIONS OTHER THAN SCHOOLS.--Section 3626 of title 39, United States Code, is amended by adding the following subsections:

"(j) For purposes of this section, the rates for mail under former section 4452(b) and (c) shall not apply to any matter which advertises--

"(1) an article or product, unless more than half of the labor of producing or assembling the article or product has been performed by members of the mailing organization or by persons for whose benefit the mailing organization was established;

"(2) travel or insurance;

"(3) any other service, unless the service is provided by members of the mailing organization or by persons for whose benefit the mailing organization was established; or

"(4) a gift or premium offer unless the gift or premium may be kept by the addressee whether or not a contribution is made.

"(k) The rates for mail under former subsections 4452(b) and (c) of this title shall not apply to any matter which attempts to influence legislation or to influence a partisan election.

"(l) If the advertising portion of an issue of a publication exceeds 10 percent of such issue, the publication shall not be eligible for rates established under this section for mail under former subsection 4358(d).

"(m) For purposes of this section, a nonprofit organization or association shall be considered to qualify as "educational," as that term is used in former sections 4358, 4452, and 4554 of this title, only if its primary purpose is to administer a course or courses of instruction through a teacher-student relationship in school.".

(b) PUBLISHER MAILINGS AT LIBRARY RATE.--Section 3683 of title 39, United States Code, is amended by striking out "(a)" and by striking out subsection (b).

SEC. 3. POSTAGE RATES FOR GOVERNMENT MAIL.

(a) PRINCIPLE FOR SETTING GOVERNMENT RATES--Section 3622 of title 39, United States Code, is amended by adding at the end the following new subsection:

"(d) In establishing rates or fees for each class of mail or type of service, it shall be a policy of this title that rates charged the Federal Government for any class of mail or type of service shall not exceed:

"(1) the direct and indirect postal costs attributable to it, plus

"(2) an assignment of other costs of the Postal Service in an amount which bears the same ratio to such attributable costs assigned under subsection (b)(3) of this section as other mail of the same class or type but not sent under chapter 32 of this title bears to the attributable costs of such other mail.".

(b) TRANSITIONAL POSTAGE CHARGES--From October 1, 1990, until such time as rates of postage are changed under title 39, United States Code, as amended by subsection (a), the United States Postal Service, in determining the equivalent of postage on penalty and franked mail as required under sections 3206 and 3216 of such title, shall take into consideration such differences in attributable costs between such mail and non-Government mail as are reflected in the record of Postal Rate Commission Docket No. R87-1.

SEC. 4. EFFECTIVE DATE.

This Act is effective October 1, 1990.

Section-by-Section Analysis

Sec. 1. Short Title.

Sec. 2. This section amends 39 U.S.C. 3626 and 3683 to tighten eligibility requirements for reduced rate mailings, and to cure defects which have enabled such rates to be used for purposes not warranting public financial support. These reforms would curtail the use of reduced rates to send advertising mail and political advocacy mail, and stop the use of favored library rates by publishers and distributors. This section would also limit qualification as a nonprofit "educational" organization to those involving courses of instruction with a teacher-student relationship.

Sec. 3. This section establishes, as a policy to be used in postal rate proceedings, the principle that rates and fees paid by the Federal Government for a class of mail or type of service should not exceed certain costs. These costs are the actual costs of delivering Government mail, plus the same percentage of other postal costs as is charged in the rates for comparable commercial mailings. The Federal Government, like other mailers, would be able to file a complaint with the Postal Rate Commission if this policy is not implemented with respect to a particular class of mail or type of mail service. Subsection (b) provides that until the next postal rate proceeding is completed, the Postal Service must estimate the appropriate charges using the attributable cost data for penalty and franked mail that appears in the record of the last postal rate case, Docket No. R87-1.

The practical effect of this change is that the rate for Federal mail would reflect actual costs attributable to delivering it, which are in most instances lower than the generally applicable rates.

Sec. 4. This section provides that the provisions of the Act take effect October 1, 1990.

UNITED STATES POSTAL SERVICE

Fiscal Year 1991 Budget
Congressional Submission

Department Of The Controller
Office Of Budget

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U.S. POSTAL SERVICE
1991 BUDGET

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U. S. POSTAL SERVICE
1991 BUDGET
PART I
APPROPRIATION REQUEST

U.S. POSTAL SERVICE
Appropriations

The following schedules reflect the Postal Service's budget for Fiscal Year 1991 as submitted to the Office of Management and Budget without revision. Funding requested reflects the amounts authorized in Title 39, United States Code, §2401 and §2004.

Revenue Forgone
The Postal Service is requesting funding in Fiscal Year 1991 for revenue forgone on free and reduced-rate mail consistent with 39 U.S.C. 2401(c). However, the Administration has proposed to tighten eligibility requirements for preferred rates while continuing lower rates for most religious and charitable organizations. Preferred rate status would be terminated or restricted for the following categories: (a) second-class nonprofit mail whose content includes more than 10 percent advertising; (b) third-class nonprofit mail containing political advocacy advertising that does not relate directly to the primary purpose of the organization, or material for educational organizations that are not schools; and (c) fourth-class library rates for publisher mailings to libraries or schools.

Transitional Costs
Funds are requested for transfer to the Department of Labor to cover workers' compensation paid to postal employees for injuries that occurred prior to July 1, 1971, while employed by the Post Office Department, which remains a liability of the U.S. Government pursuant to 39 U.S.C. 2002.

Public Service Costs
For public service costs, Title 39 U.S.C. §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department Fiscal Year 1971 appropriation. This amounts to $460,000,000. Also, Section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero. Since the Postal Service has operated successfully without this appropriation for seven years, the Postal Service is requesting no appropriation for public service costs during Fiscal Year 1991.

The following schedule provides a summary and reconciliation of the appropriations requested and recommended level of funding.

U.S. POSTAL SERVICE
Appropriations
(in thousands of dollars)

	Public Service Costs	Revenue Forgone	POD Transitional Costs	Total
FY 1989:				
USPS Request	...	527,482	37,436	564,918
OMB Proposal	...	19,023	...	19,023
Postal Service Appropriation Act, 1989 P.L. 100-440	...	436,417	...	436,417
FY 1990:				
USPS Request	...	459,755	36,942	496,697
OMB Proposal	...	-21,176	36,942	15,766
Postal Service Appropriation Act, 1990 P.L. 101-136	...	459,755	36,942	496,697
Reduction Pursuant to P.L. 99-177	...	-6,330	-517	-6,847
Total Received in FY 1990	...	453,425	36,425	489,850
FY 1991:				
USPS Request	...	484,592	38,142	522,734
OMB Proposal	...	372,592	38,142	410,734

U.S. POSTAL SERVICE
Appropriations Summary
(in thousands of dollars)

	FY 1989 Appropriation	FY 1990			FY 1991	
		Request	OMB Proposal	Appropriated PL 101-136	Request	OMB Proposal
A. Total budget authority (appropriation)	436,417	496,697	15,766	489,850 *	522,734	410,734
B. Program by activities:						
1. Public service costs	...	...	...	...	...	...
2. Free and reduced-rate mail (revenue forgone)	436,417	459,755	-21,176	453,425 *	484,592	372,592
3. Non-funded liabilities of the former POD	...	36,942	36,942	36,425 *	38,142	38,142
Total appropriations	436,417	496,697	15,766	489,850 *	522,734	410,734

* Reported amounts reflect reductions pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, as follows (in $000):

Revenue Forgone	6,330
Non-Funded POD Liabilities	517
Total	6,847

General and special funds:

Payment to the Postal Service Fund

For payment to the Postal Service Fund for revenue forgone on free and reduced-rate mail, pursuant to subsection (c) of section 2401 of 39 U.S.C.; $484,592,000.

For payment to the Postal Service Fund for meeting the liabilities of the former Post Office Department to the Employees' Compensation Fund, pursuant to section 2004 of 39 U.S.C.; $38,142,000.

Program and Financing
(in thousands of dollars)

	FY 1989 Actual	FY 1990 Estimate	FY 1991 Estimate	
			USPS Request	OMB Proposal
Program by activities:				
Payment to the Postal Serivce Fund for:				
Free and reduced rate-mail	489,414	498,297	512,790	400,790
Reconciliation adjustment - free and reduced-rate mail	-52,997	-44,872	-28,198	-28,198
Subtotal, free and reduced-rate mail	436,417	453,425	484,592	372,592
Previous non-funded liabilities of the POD	...	36,425	38,142	38,142
Total payments to the Postal Service Fund (total obligations)(object class 41.0)	436,417	489,850	522,734	410,734
Financing:				
Budget authority (appropriation)	436,417	496,697	522,734	410,734
Reduction pursuant to P.L. 99-177	...	-6,847	...	...
Appropriation - adjusted	436,417	489,850	522,734	410,734

U.S. POSTAL SERVICE
Federal Funds
Program and Financing Cont'd
(in thousands of dollars)

	FY 1989 Actual	FY 1990 Estimate	FY 1991 Estimate	
			USPS Request	OMB Proposal
Relation of obligations to outlays:				
Obligations incurred, net	436,417	489,850	522,734	410,734
Outlays	436,417	489,850	522,734	410,734

Appropriations totalling $522,734 thousand are for the purpose of reimbursing the Postal Service for $484,592 thousand for loss in revenue associated with carrying certain categories of mail at free and reduced rates and for paying $38,142 thousand of previously unfunded liabilities of the former Post Office Department. The $38,142 thousand is for payment to the employees' compensation fund for injuries prior to July 1, 1971. Under the Postal Reorganization Act, the remaining liabilities of the former Post Office Department remain the responsibility of the United States, and do not fall on present-day ratepayers who must pay the full cost of present-day operations. The Postal Service is not liable to the Department of Labor for these amounts until the appropriation is received.

The following table represents the estimated revenue forgone by the Postal Service in Fiscal Year 1991 for carrying certain categories of mail at free and reduced rates.

Estimated Revenue Forgone Appropriations, FY 1991 (in thousands of dollars)	
Class of Service	Total Revenue Forgone
Second-Class:	
In-County	37,030
Nonprofit	66,926
Classroom	3,351
Regular-rate	240
Total	107,547
Third-Class:	
Bulk nonprofit	383,980
Fourth-Class:	
Library rate	2,232
Free for blind	18,556
Absentee ballot materials	475
Total revenue forgone, FY 1991	512,790
Reconciliation Adjustment	-28,198
Subtotal	484,592
Less:	
Amount not recommended by OMB	-112,000
Total - OMB proposal	372,592

1. FY 1991 Appropriation Requested for Revenue Forgone.

(in thousands of dollars)

ITEM	FY 1989	FY 1990		FY 1991	
	Amount	Amount	Chg. From Prior Yr.	Amount	Chg. From Prior Yr.
a. Continuing appropriation	489,414	498,297	8,883	512,790	14,493
b. Reconciliation adjustment ...	-52,997	-44,872	8,125	-28,198	16,674
Total revenue forgone	436,417	453,425	17,008	484,592	31,167

An appropriation of $484,592,000 is requested in Fiscal Year 1991 for revenue forgone on free and reduced-rate mail which enables postage rates to be set below the unsubsidized rate levels for certain second-class, third-class and fourth-class mail. Funds are requested to provide the continuance of reduced rates for certain preferred rate mail as authorized by Title 39, United States Code, §3626, as amended.

a. FY 1991 Continuing Appropriation Requested, $512,790,000.

The continuing appropriation requested will provide funding of the difference between rates charged to preferential rate mailers (including non-profit organizations, the blind and other visually handicapped persons as defined in 39 U.S.C. 3403 - 3404) and the rates they would pay if the appropriation were eliminated. The rates for these mailers are assumed to be at the fully funded level reflecting the full amount of the preference authorized by law, under which these categories would cover their attributable costs but make no contribution to system overhead. Funds for this appropriation request are authorized by 39 U.S.C. 2401(c).

b. Reconciliation Adjustment, Revenue Forgone, -$28,198,000:

(in thousands of dollars)

ITEM	FY 1989	FY 1990		FY 1991	
	Amount	Amount	Chg. From Prior Yr.	Amount	Chg. From Prior Yr.
Reconciliation adjustment	-52,997	-44,872	8,125	-28,198	16,674

This request is based on 39 U.S.C. 2401(c) which authorizes appropriations each year to reimburse the Postal Service for the revenue forgone on free and reduced-rate mail. The amount of revenue forgone is the difference between what the Postal Service would have received at unsubsidized rates and what it actually receives at the statutory reduced-rate levels. The primary variable in calculating the amount of revenue forgone is the estimation of mail volume, which is affected by such variables as changing economic conditions and general rate levels.

The last sentence of section 2401(c) requires that each year's appropriation request include an amount to reconcile the appropriation for prior years based on final audited mail volumes. This requirement enables appropriations, based on advance estimates, to be adjusted when audited volume figures become available.

The final amounts appropriated to the Postal Service for Fiscal Year 1988 were based on estimates that appropriations amounting to $535,545,000 would be required for free and reduced-rate mail. However, audited mail volumes indicate that $507,347,000 was actually required to fully reimburse the Postal Service for services provided - leaving an excess of $28,198,000 which is returned to the Government in the Postal Service's Fiscal Year 1991 appropriation request.

The Postal Service, in accordance with the objectives established in the Postal Reorganization Act by the Congress, is therefore submitting a reconciliation adjustment of $-28,198,000 to adjust the reimbursement for services performed on free and reduced-rate mail during Fiscal Year 1988.

(in thousands of dollars)

Class of Service	Appropriation Indicated	Appropriation Received	Reconciliation Adjustment
Continuing appropriation:			
Second-class	96,677	96,646	31
Third-class	368,702	402,417	-33,715
Fourth-class, library rate.	10,523	9,443	1,080
Free mail	31,445	27,039	4,406
Total Revenue Forgone	507,347	535,545	-28,198

Characteristics of Free and Reduced-Rate Mail

The eligible second-class mail categories are:

- In-county mailings of small and local publications.
- Publications issued by and in the interest of certain nonprofit organizations and associations. Examples are publications issued by religious, educational, philanthrophic, agricultural, labor, and veterans' organizations.
- Publications designed specifically for use in school classrooms or in religious instruction classes.
- For-profit agricultural periodicals.

The eligible third-class category consists of:

- Bulk-rate mailings of authorized state and national political committees and of certain nonprofit organizations or associations. Mailings must be separately addressed, and consist of not less than 200 pieces or 50 pounds.

Eligible fourth-class mail consists of:

- Books, films, printed music, bound volumes of academic theses, periodicals, sound recordings, etc., when loaned or exchanged between schools, colleges, universities, or public libraries, and shipments of books from a publisher or distributor to a school or university as well as shipments of other items by certain nonprofit organizations.

Free for the Blind and Overseas Voters:

- Certain matter for use by the blind or other persons who cannot use or read conventionally printed material because of physical impairment is mailable free of postage. In order to qualify, there must be no charge, rental, subscription or other fee required for such matter.

- Items mailable free by a qualifying person include unsealed letters, sound reproductions, braille writers or typewriters, and educational or other materials or devices specifically designed or adapted for use of a visually handicapped person.

- Absentee balloting materials mailable free by members of the Armed Forces and other U.S. citizens residing outside the territorial limits of the United States, and between state and local election officials in bulk.

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2. FY 1991 Appropriation Request for the nonfunded liabilities of the former Post Office Department, $38,142,000:

(in thousands of dollars)

ITEM	FY 1989	FY 1990		FY 1991	
	Amount	Amount	Chg. From Prior Yr.	Amount	Chg. From Prior Yr.
Employees' Compensation Fund ...	...	36,942	36,942	38,142	1,200
Total Post Office Department Liabilities	...	36,942	36,942	38,142	1,200

Employees' Compensation Fund $38,142,000:
An annual amount is requested to fund compensation paid to postal employees for injuries which occurred prior to July 1, 1971, while employed by the Post Office Department, which remain liabilities of the U.S. Government. The Postal Service annually requests an appropriation to cover the amount billed by the Department of Labor for compensation payments made in the latest fiscal year. The amount appropriated is then reimbursed to the Department of Labor. A schedule providing the number of cases and costs of compensation by fiscal year follows:

Actual Year	Budget Year	Number of Cases	Costs ($000)		Unappropriated Amounts ($000)
1972	1974	26,357	30,096		
1973	1975	10,429	24,451		
1974	1976	9,340	27,913		
1975	1977 & T.Q.	8,407	30,805		
1976	1978	7,571	33,791		
1977	1979	6,898	34,632		
1978	1980	6,639	35,655		
1979	1981	5,497	37,109		
1980	1982	5,069	38,240		
1981	1983	4,486	39,991		
1982	1984	4,313	42,790		
1983	1985	3,964	42,066		
1984	1986	3,562	39,128	No Funds Appropriated	39,128
1985	1987	3,358	40,049	No Funds Appropriated	40,049
1986	1988	3,125	39,507	$1,000 Appropriated	39,506
1987	1989	2,912	37,436	No Funds Appropriated	37,436
1988	1990	2,766	36,942		
1989	1991	2,634	38,142		
					156,119

U. S. POSTAL SERVICE
1991 BUDGET
PART II
FINANCIAL STATEMENTS

U.S. POSTAL SERVICE

The Postal Reorganization Act of 1970 (PRA), Public Law 91-375, converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. The Postal Service commenced operations July 1, 1971. This agency is charged with providing reliable mail service at reasonable rates and fees.

The U.S. Postal Service is governed by an 11-member Board of Governors, including 9 Governors appointed by the President, the Postmaster General who is selected by the Governors, and the Deputy Postmaster General who is selected by the Governors and the Postmaster General.

Decisions on changes in domestic rates and postage and fees for postal services are recommended to the Governors of the Postal Service by the independent Postal Rate Commission after a hearing on the record under the Administrative Procedure Act. The Commission also recommends decisions on changes in the domestic mail classification schedule to the Governors. Decisions of the Governors on rates of postage, fees for postal services, and mail classification are final, subject to judicial review.

Programs - Included are all postal activities providing window services; processing, delivery, and transportation of mail; research and development; administration of postal field activities; and associated expenses of providing facilities and equipment.

Financing - The activities of the U.S. Postal Service are financed from the following sources: (1) mail and services revenue; (2) reimbursements from Federal and non-Federal sources; (3) proceeds from borrowing; (4) interest from U.S. securities and other investments; and (5) appropriations by the Congress. All receipts and deposits are made to the Postal Service Fund and are available without fiscal year limitation for payment of all expenses incurred, retirement of obligations, investment in capital assets, and investment in obligations and securities.

Section 2005 of Title 39, United States Code, authorizes the Postal Service to borrow money and to issue obligations for this purpose. Through the end of Fiscal Year 1990, the aggregate amount of such obligations outstanding at any one time may not exceed $10 billion. This maximum amount is increased to $12.5 billion in Fiscal Year 1991 and to $15.0 billion for Fiscal Year 1992 and each fiscal year thereafter. Also beginning in Fiscal Year 1991, the net increase in amounts outstanding in any year may not exceed $2.0 billion in obligations issued for the purpose of capital improvements and $1.0 billion for the purpose of defraying operating expenses. These limits are increased from $1.5 billion and $0.5 billion, respectively. As of September 30, 1991, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to $9.2196 billion.

The PRA created an independent Postal Service with a mandate to operate in a business-like manner and to report its finances using business-like accounting and budgeting. As a result, the Postal Service adopted an accrual accounting system, which follows generally accepted accounting principles, in which capital expenditures are depreciated over an asset's useful life. This provides the allocation of costs to the years in which an asset's benefits are received. The Federal Government's cash accounting approach ignores the fact that valuable assets are acquired by the Postal Service which will be funded through postage rates set to recover the cost of assets over their useful lives rather than in one year. Consistent with the purpose of the Act, the Office of Management and Budget (OMB) moved all Postal Service financial transactions except those involving appropriations, such as the revenue forgone payments for free and reduced-rate mail, from the Federal Government's budget and deficit calculations in Fiscal Year 1974. This action placed the Postal Service off-budget.

However, with the Fiscal Year 1986 Federal Budget, OMB placed the Postal Service back on-budget. The differences in the way capital expenditures are treated for postal rate purposes under an accrual accounting system as compared to the government's cash-basis system improperly made it appear that the "break-even" mandate of the Postal Service consistently adds to the Federal deficit in the near-term.

Enactment of the Budget Reconciliation Act of 1989 once again placed the Postal Service Fund off-budget. Effective with Fiscal Year 1990, receipts and disbursements of the Postal Service Fund will not be considered as part of the congressional and executive budget process and will not be taken into account in making calculations under the Balanced Budget and Emergency Deficit Control Act of 1985.

U.S. POSTAL SERVICE

Legislative Changes to be Proposed by the Administration

1. Fiscal Year 1991 - Revenue Forgone - The Administration plans to propose legislation which would narrow eligibility for certain types of mail or mailers for subsidized rates. Those denied the subsidies would be charged commercial rates so that, to the Postal Service, the postage gain would offset the appropriation loss. While the proposal does not specify the restricted mail categories in full particulars, our understanding is that the restrictions would attempt to focus on the following:

Second-Class Nonprofit:

- Charge unsubsidized postage rates for publications when the advertising exceeds 10 percent of the reading content.

Third-Class Nonprofit:

- Exclude all advertising except what pertains to the primary purpose of the nonprofit organization.

- Limit educational nonprofit authorizations to schools.

- Exclude political advocacy material from receiving reduced rates.

Fourth-Class Library Rate:

- Eliminate publications' eligibility for subsidized library rates for mailings which are sent to libraries or schools.

On a policy and budget level, the Postal Service has always regarded preferred rate levels and eligibility as political decisions. Administratively, to attempt to limit third-class nonprofits as described presents some potential enforcement difficulties. Interpretation of what mail qualifies for preferred rates could be subjective and

difficult to determine on a consistent basis by thousands of acceptance personnel around the country.

2. Establish a Separate Subclass for Government Mail - The Administration's FY 1991 legislative initiatives will propose a "separate subclass" for government mail that would result in a set of separate lower rates for matter mailed by any Federal office. The rationale for this proposal is the assumption that government mail tends to exhibit a much higher ratio of revenue to cost (cost coverage), on average, compared to other mail in old Postal Service Cost and Revenue Analysis Reports. It will be proposed that the rates and revenues for government mailers be reduced to the point that the cost coverages for government mail equal that of other mail of the same category.

   This proposal involves several complications:

   a. A complete separate schedule of rates would have to be developed for government mailers. The development and administration of two sets of postal rates would become much more complex.

   b. Separate rates for government mailers might be considered discriminatory by other mailers, all of whom now pay the same rates based on average costs for each separate mailing category. Mail from large businesses may match or exceed whatever low cost attributes government mail might have. Any justification for granting lower rates to government mailers, on the basis of cost disaggregation, would just as well justify similar treatment for large and sophisticated business mailing operators.

   c. Any revenue losses from government mail and any similar losses from business mail would have to be recovered through higher rates for other mail categories following a general rate case. Individuals and small businesses might see substantial rate increases to finance rate cuts for government and "big business". Revenue lost to the Postal Service during the interim would add to Postal Service deficits.

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3. Require USPS to Pay the Cost of CSRS Retirement Annuitant COLAs on a Dynamic Basis - Legislation will be proposed that would require USPS to completely pre-fund its existing retirement obligation for Civil Service Retirement System (CSRS) employees by increasing its employer's share of CSRS retirement contributions from 7.0% to 11.67% in FY 1991 and to 14.0% in FY 1994.

The Postal Service currently contributes 7% of basic pay to the CSRS for employees covered by that retirement program. It pays the rest of its obligation for CSRS retirees through amortized annual payments offsetting unfunded liabilities. Under legislation added in 1974, it pays for any increases in the unfunded liability of the CSRS attributable to increases in basic pay, retroactive to 1972. These costs are amortized over 30 years. Under the Omnibus Budget Reconciliation Act of 1987, during FY 1988 the Postal Service was required to make a one-time federal deficit reduction payment to the CSRS in the amount of $350 million.

The Omnibus Budget Reconciliation Act of 1989 (OBRA of 1989) makes the Postal Service liable for COLA payments to Postal Service annuitants, or their survivors, who retire from the Postal Service after September 1986. The unfunded liability for these COLA costs will be amortized over 15 years and will be prorated to reflect only civilian service since June 30, 1971. Payment will begin in FY 1990 and the FY 1990 payment will also include an additional amount equal to the payments which would have been made had this legislation been in effect on October 1, 1986.

The proposal to increase the Postal Service 7% employer's share of CSRS retirement contributions essentially calls for dynamic funding of the COLAs, applicable only to the Postal Service. This proposal is inconsistent with funding by the rest of the Government and since the Postal Service is a captive participant in the CSRS with postal employees sharing equally in its benefits, any requirement to pre-fund a disproportionate share of the costs is discriminatory. As a technical matter, a switch to dynamic funding for COLAs would also require offsetting adjustments to the COLA payments required by the OBRA of 1989, for that portion of retiree COLAs funded by increasing the employer contribution from 7 to 14% prior to an employee's retirement. This presumably would be accomplished by relieving the Postal Service of COLA contributions required under OBRA of 1989, for employees retiring after FY 1990,

if dynamic COLA funding is introduced. This was not considered in OMB's cost estimate.

There would be no requirement for segregation of the Postal Service's pre-funding payments, so that the money would presumably be made available to the Treasury to offset current deficits in general program accounts.

Since OBRA of 1989 contains language making the Postal Service liable for the CSRS COLA costs of post-86 Postal Service annuitants, the Postal Service has already included the estimated cost in its budget totals for FYs 1990 and 1991.

4. Freeze CSRS Annuitant COLA in FY 1991 - The Administration plans to propose a "freeze" on the amount of COLA paid to CSRS annuitants in FY 1991. If enacted, this proposal would reduce Postal Service costs attributable to postal annuitant COLAs.

5. Require the Postal Service to Reimburse OPM for the Employer's Share of FEHB Payments for Postal Annuitants who Retired Between 1971 and 1986 and Their Survivors - From July 1, 1971, through September 30, 1986, the federal government paid 100% of the employer cost of health insurance for all retirees of the POD and all new retirees from the USPS. Under the Consolidated Omnibus Budget Reconciliation Act of 1985, P.L. 99-272, the Postal Service began paying, prospectively, the employer cost of health insurance for all retirees from the USPS after September 30, 1986.

While this 1985 Act was enacted in part as a budgetary reduction measure, it also was intended to address a concern about what could be regarded as indirect federal subsidies to postal ratepayers. By assigning the Postal Service prospective liability for new retirees, it in effect made a rough allocation of responsibility between the Government and the Postal Service approximately according to employee time put in before and after postal reorganization. When the Postal Service was created, it was provided no funding for previously unfunded liabilities already built up under employee benefit programs, but these liabilities were made the legal responsibility of the United States.

The proposal now to expand the Postal Service share of annuitant health benefit costs seeks to make current postal ratepayers retroactively responsible for the cost of benefits of former employees, many of whom served much or all of their careers before creation of the Postal Service. The Postal Service believes that existing legislation, as supplemented by OBRA of 1989, fairly allocates retiree COLA and health benefit costs to the Postal Service, and any additional cost allocation to the Postal Service would place a punitive burden on postal ratepayers through increased postage rates to pay for U.S. Government liabilities that should be borne by the Treasury.

Since OBRA of 1989 contains language making USPS liable for the employer share of post-86 survivor health benefits, the Postal Service has included the estimated costs in its budget totals for FYs 1990 and 1991.

POSTAL SERVICE FUND
Impact of Administration's Legislative Proposals for FY 1991
($ millions)

	Net Income (Loss)	Outlays
USPS Estimate		
Unadjusted Totals	(3,172)	4,102
Adjustment Needed to Meet Statutory Break-even Requirement	3,172	(3,172)
Adjusted Totals	-0-	930
Administration Proposals		
Revenue Forgone Revision	(112)	112
Government Mail Subclasses	(220)	220
CSRS COLA Dynamic Funding	(644)	644
Annuitant Health Benefit Costs	(689)	689
CSRS annuitant COLA Freeze	35	(35)
Mail Revenue Resulting From Partial Recovery of Above Additional Costs and Revenue Lost	871	(871)
Investment Income Reduction	(32)	32
President's Budget	(791)	1,721

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Omnibus Budget Reconciliation Act of 1987 (OBRA of 1987)

The OBRA of 1987 required the Postal Service to make payments of $350 million to the Civil Service Retirement and Disability Fund and $160 million to the Employees Health Benefits Fund in Fiscal Year 1988. Also required was a $270 million payment in 1989 to the Employees Health Benefits Fund. Funds for the 1988 and 1989 health benefit payments were derived from operating budget savings. An escrow account was also established with the U.S. Treasury into which the Postal Service deposited $465 million on October 31, 1988. The escrow was terminated and the funds returned on October 1, 1989. Excluding the temporarily escrowed funds, this legislation required Postal Service payments totalling $800 million during 1988 and 1989.

The Act also limited Postal Service capital investment commitments to $625 million in Fiscal Year 1988. Compared to the original Fiscal Year 1988 capital investment plan, these restrictions reduced Fiscal Year 1988 capital commitments by $1.736 billion for a 74 percent reduction. The Act also limited Fiscal Year 1989 capital commitments to $1.995 billion, a reduction of $635 million or 24 percent from the original plan.

Omnibus Budget Reconciliation Act of 1989 (OBRA of 1989)

The OBRA of 1989 included several provisions affecting the Postal Service's budget for 1990 and the budgets of future years.

The OBRA of 1989 places the Postal Service Fund off budget effective in Fiscal Year 1990. It excludes postal receipts and disbursements from the totals in the President's Budget, the Congressional Budget Resolution and Gramm-Rudman-Hollings Act sequestration. Appropriations to USPS remain on-budget.

Payments to the Department of Labor for USPS workers' compensation are accelerated. Beginning in September 1990, all future payments normally due in mid-October will be made on the preceding September 30. This change will result in two payments during Fiscal Year 1990 and cause all subsequent payments to be advanced one fiscal year. The OBRA of 1989 makes USPS liable for CSRS COLA payments to USPS annuitants (or their survivors) who retire from USPS after 9/30/86. It also makes USPS liable for the employer's share of health benefits costs of survivors of former USPS employees who died after 9/30/86.

U.S. Postal Service Debt Ceiling Legislation

Recently enacted legislation also increased Postal Service borrowing authority. The following changes have been made to Postal Service statutory borrowing authority:

- The maximum total outstanding borrowing is increased from the current $10.0 billion to $12.5 billion in Fiscal Year 1991 and to $15.0 billion for Fiscal Year 1992 and each fiscal year thereafter.
- The maximum annual net increase in obligations outstanding for capital improvements is increased to $2.0 billion.
- The maximum annual net increase in obligations outstanding for operating expenses is increased to $1.0 billion.

The following Program and Financing Statement, Statement of Revenue and Expense, and Statement of Financial Condition reflect the Postal Service Forecasts for Fiscal Years 1990 and 1991, and the projected impact of the Administration's proposals.

U. S. POSTAL SERVICE
PROGRAM AND FINANCING

(IN THOUSANDS OF DOLLARS)

ITEM	ACTUAL FY 1989	USPS ESTIMATE FY 1990	FISCAL YEAR 1991 USPS ESTIMATE	PROPOSED OMB ADJ.	OMB ESTIMATE
PROGRAM BY ACTIVITIES:					
Direct Program:					
Postal field operations	29,564,905	31,030,964	32,758,869	631,000	33,389,869
Transportation	2,471,348	2,642,829	2,876,194		2,876,194
Building occupancy	893,382	937,163	1,001,173		1,001,173
Supplies and services	830,983	913,084	1,047,769		1,047,769
Research and development	63,631	85,595	90,469		90,469
Administration and regional operations	3,543,487	3,769,874	3,926,807	667,000	4,593,807
Interest	561,949	620,386	747,901		747,901
Servicewide expenses	347,249	125,318	196,940		196,940
Capital investment	1,955,042	2,958,539	2,726,530		2,726,530
Post Office Department Workers' Compensation	...	36,425	36,142		36,142
Total direct program	40,231,976	43,120,177	45,410,794	1,298,000	46,708,794
Reimbursable program	225,931	286,274	230,358		230,358
Total obligations	40,457,907	43,406,451	45,641,152	1,298,000	46,939,152

U. S. POSTAL SERVICE
PROGRAM AND FINANCING

(IN THOUSANDS OF DOLLARS)

ITEM	ACTUAL FY 1989	USPS ESTIMATE FY 1990	FISCAL YEAR 1991 USPS ESTIMATE	PROPOSED OMB ADJ.	OMB ESTIMATE
Financing:					
Offsetting collections from:					
Federal funds	(2,180,939)	(2,165,513)	(2,032,311)	364,000	(1,668,311)
Non-Federal sources	(36,964,596)	(37,513,911)	(41,884,902)	(871,000)	(42,755,902)
Unobligated balance available, start of year:					
Treasury balance	(458,397)	(525,662)	(525,662)		(525,662)
Unobligated balance available, end of year:					
Treasury balance	525,662	525,662	525,662		525,662
Unobligated balance restored (money orders)	(67,266)	...	...		...
Redemption of Debt	297,200	360,200	440,200		440,200
Budget authority (Authority to borrow) (permanent, indefinite)	1,609,572	4,067,227	2,164,139	791,000	2,955,139
Relation of obligation to outlays:					
Obligation incurred, Net	1,312,372	3,727,027	1,723,939	791,000	2,514,939
Obligated balance, start of year:					
Authority to borrow	6,375,788	7,085,360	9,597,587		9,597,587
Treasury balance	(455,619)	(14,300)	24,580		24,580
U.S. securities (par)	3,948,616	4,419,716	3,207,604		3,207,604
Obligated balance, end of year:					
Authority to borrow	(7,085,360)	(9,597,587)	(9,761,726)	(791,000)	(10,552,726)
Treasury balance	14,300	(24,580)	(26,504)		(26,504)
U.S. securities (par)	(4,419,716)	(3,207,604)	(3,835,626)	791,000	(3,044,626)
Outlays	(309,619)	2,368,032	929,854	791,000	1,720,854

U. S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE
(IN THOUSANDS OF DOLLARS)

	ACTUAL FY 1989	USPS ESTIMATE FY 1990	OMB PROPOSED ADJ.	OMB ESTIMATE FY 1990	USPS ESTIMATE FY 1991	OMB PROPOSED ADJ.		OMB ESTIMATE FY 1991
REVENUE AND OPERATING RECEIPTS:								
Mail and Service Revenues	37,978,675	38,484,000		38,484,000	39,658,000	651,000		40,309,000
Total Appropriations	436,417	489,850		489,850	522,734	-112,000		410,734
Less:								
POD Transitional Costs		-36,425		-36,425	-38,142			-38,142
Net Appropriations	436,417	453,425		453,425	484,592	-112,000		372,592
Estimated Net Impact Of Potential New Rates								
TOTAL OPERATING REVENUE	38,415,092	38,937,425		38,937,425	40,142,592	539,000		40,681,592
OPERATING EXPENSES:								
PAYABLE FROM THE POSTAL SERVICE FUND, FUNDED								
Postal Field Operations	29,683,208	31,141,540		31,141,560	32,876,226		631,000	33,507,226
Transportation	2,471,348	2,642,829		2,642,829	2,876,194			2,876,194
Building Occupancy	893,382	937,163		937,163	1,001,173			1,001,173
Supplies and Services	931,637	1,016,053		1,016,053	1,154,857			1,154,857
Research and Development	63,631	85,595		85,595	90,469			90,469
Administration And Regional Operations	3,526,120	3,752,447		3,752,447	3,909,197		667,000	4,576,197
Support Services	17,860	17,920		17,920	18,104			18,104
Servicewide Expenses	177,550	150,740		150,740	220,162			220,162
TOTAL ACCRUED COSTS	37,764,736	39,744,287		39,744,287	42,146,382		1,298,000	43,444,382
OTHER OPERATING EXPENSES (NONFUNDED):								
Depreciation and Amortization	598,737	677,708		677,708	855,885			855,885
Expendable Equipment & Other	3,730	3,872		3,872	4,039			4,039
TOTAL OTHER OPERATING EXPENSES	602,467	681,580		681,580	859,924			859,924
OPERATING SUMMARY BEFORE EXTRAORDINARY ITEMS								
TOTAL OPERATING REVENUE	38,415,092	38,937,425		38,937,425	40,142,592	539,000		40,681,592
TOTAL OPERATING EXPENSES BEFORE EXTRAORDINARY ITEMS	38,367,203	40,425,867		40,425,867	43,006,306		1,298,000	44,304,306
NET INCOME BEFORE EXTRAORDINARY ITEMS	47,889	-1,488,442		-1,488,442	-2,863,714	539,000	-1,298,000	-3,622,714

U. S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE
(IN THOUSANDS OF DOLLARS)

	ACTUAL FY 1989	USPS ESTIMATE FY 1990	OMB PROPOSED ADJ.	OMB ESTIMATE FY 1990	USPS ESTIMATE FY 1991	OMB PROPOSED ADJ.		OMB ESTIMATE FY 1991
EXTRAORDINARY GAINS AND LOSSES								
Proceeds From Sale of Assets	12,793	25,422		25,422	23,222			23,222
Net Book Value Of Assets	16,349	25,422		25,422	24,222			24,222
Gain (-) or Loss on Sale of Assets	3,556				1,000			1,000
TOTAL OPERATING EXPENSES	38,370,759	40,425,867		40,425,867	43,007,306		1,298,000	44,305,306
NET OPERATING INCOME OR LOSS (-)	44,333	-1,488,442		-1,488,442	-2,864,714	539,000	-1,298,000	-3,623,714
NONOPERATING INCOME AND EXPENSE:								
Investment Income	504,513	419,300		419,300	335,100		-32,000	303,100
Interest Expense	488,127	520,892		520,892	642,407			642,407
SUMMARY OF REVENUE AND EXPENSE								
TOTAL REVENUES	38,919,605	39,356,725		39,356,725	40,477,692	539,000	-32,000	40,984,692
TOTAL EXPENSES	38,858,886	40,946,759		40,946,759	43,649,713		1,298,000	44,947,713
NET INCOME	60,719	-1,590,034		-1,590,034	-3,172,021	539,000	-1,330,000	-3,963,021

U.S. Postal Service
Statement of Revenue and Expense
(in thousands of dollars)

	Actual FY 1989	USPS Estimate FY 1990	OMB Proposed Adj.	OMB Estimate FY 1990	USPS Estimate FY 1991	OMB Proposed Adj.		OMB Estimate FY 1991
Net Income, Loss (-)	60,719	-1,590,034		-1,590,034	-3,172,021	539,000	-1,330,000	-3,963,021
Adjustment Needed to Meet Statutory Break-even Requirement					3,172,021	---	---	3,172,021
Adjusted Net Income	60,719	-1,590,034		-1,590,034	-0-	539,000	-1,330,000	-791,000

U. S. POSTAL SERVICE
STATEMENT OF FINANCIAL CONDITION
(IN THOUSANDS OF DOLLARS)

	ACTUAL FY 1988	ACTUAL FY 1989	ESTIMATE FY 1990	FISCAL YEAR 1991 USPS ESTIMATE	PROPOSED OMB ADJ.	OMB ESTIMATE
Assets:						
Fund balance with Treasury and cash	5,343	302,153	341,033	342,957		342,957
Accounts receivable (net)	621,086	568,311	586,311	606,311		606,311
Advances and prepayments	28,346	23,283	25,283	27,283		27,283
Investments: Federal securities at par value	3,948,616	4,419,716	3,207,604	3,835,626	(791,000)	3,044,626
Property, plant, and equipment - Net	9,537,027	10,336,004	11,647,057	13,532,966		13,532,966
Other assets (net)	20,531,844	21,122,481	21,089,012	21,229,168		21,229,168
Total Assets	34,672,262	36,771,948	36,896,300	39,574,311	(791,000)	38,783,311
Liabilities:						
Accounts payable	2,514,688	2,871,675	3,085,382	3,267,182		3,267,182
Interest payable	167,991	184,558	215,558	261,558		261,558
Funded accrued liabilities	1,431,849	1,381,012	1,424,012	1,465,012		1,465,012
Unfunded liabilities	300,000	300,000	300,000	300,000		300,000
Unearned revenue (advances)	1,687,290	1,787,053	1,912,053	2,107,053		2,107,053
Debt issued under authority to borrow:						
Gross Federal debt	250,000	250,000	250,000	250,000		250,000
Intergovernmental debt	5,592,200	6,195,000	7,409,800	8,969,600		8,969,600
Other debt	55,835	31,262	25,262	19,262		19,262
Actuarial liabilities	23,107,843	24,104,305	24,197,184	24,857,595		24,857,595
Other liabilities	25,000	68,711	68,711	68,711		68,711
Total liabilities	35,132,696	37,173,576	38,887,962	41,565,973		41,565,973
Equity:						
Unexpended financed budget authority	(2,378,218)	(2,972,454)	(4,013,993)	(4,079,523)	(791,000)	(4,870,523)
Invested capital	1,917,784	2,570,826	2,022,331	2,087,861		2,087,861
Total equity	(460,434)	(401,628)	(1,991,662)	(1,991,662)	(791,000)	(2,782,662)
Total liabilities and equity	34,672,262	36,771,948	36,896,300	39,574,311	(791,000)	38,783,311

POSTAL NEWS
UNITED STATES POSTAL SERVICE Washington DC 20260-3100

For further information call:
(202) 268-2169

ANTHONY M. FRANK
POSTMASTER GENERAL
OF THE UNITED STATES

Anthony M. Frank was appointed 69th Postmaster General of the United States on February 2, 1988, taking office on March 1, 1988.

Mr. Frank joined the Postal Service from the First Nationwide Bank, a wholly-owned subsidiary of the Ford Motor Company and one of the nation's largest consumer banking operations where he was chairman of the board and chief executive officer.

As Postmaster General, Mr. Frank is responsible for the overall operation of an independent agency with 756,660 career employees and an annual budget of about $35 billion. The Postal Service is the nation's largest private employer, serving virtually every individual and business in the United States.

Frank joined First Nationwide, a federal savings bank (formerly Citizens Savings), in 1971 when the institution's assets were $400 million and it operated solely in northern California. Under Frank's leadership, the Bank became one of the largest savings institutions in the United States with current assets of $18.8 billion and more than 370 retail branch locations in 14 states.

Only the fourth chief executive in the First Nationwide Bank's 103-year history, Frank was known for leadership and innovation and was responsible for a number of "firsts" -- the first to convert from mutual to stock form, the first to deliver services on both the east

(more)

and west coasts, the first to be selected by the Federal Government to manage an ailing thrift under the management consignment program and one of the first to offer financial services in retail stores. At year end 1987, First Nationwide operated convenience branches in 150 K-Mart stores.

Prior to joining First Nationwide, Frank served as president of INA Properties, Inc. and group vice president in charge of INA Corporation real estate and health care activities. Past industry associations include serving as chairman of the Federal Home Loan Bank of San Francisco and chairman of the California Housing Finance Agency.

Frank received a BA degree from Dartmouth College and an MBA degree from the Tuck School of Business at Dartmouth. He is presently an overseer of the Tuck School of Business. Frank also did post-graduate work in finance at the University of Vienna. He was director and vice chairman of the Federal Home Loan Bank of San Francisco, and recently resigned as director of National Intergroup Inc., Allianz Insurance Company of America, Leisure Technology Corporation and Charles Schwab & Company, Inc.

Born in Germany in May 1931, he came to the United States with his parents in 1937 and as a young man served in the U.S. Army as an interpreter.

Mr. Frank and his wife, the former Gay Palmer, are the parents of a daughter, Tracy, and a son, Randall Palmer.

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